THE BUDGET PROCESS REFORM ACT OF 1990

HEARINGS

BEFORE THE

SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

OF THE

COMMITTEE ON RULES

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

H.R. 3929

A BILL TO AMEND THE CONGRESSIONAL BUDGET ACT OF 1974 TO PROVIDE FOR BUDGET PROCESS REFORM, TO REPEAL SEQUESTRATION UNDER THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985, TO ESTABLISH A PAY-AS-YOU-GO BASIS FOR FEDERAL BUDGETING, AND FOR OTHER PURPOSES

MARCH 20, 21; APRIL 19 AND MAY 9, 1990

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H.R. 3929, THE BUDGET PROCESS REFORM ACT OF 1990

TUESDAY, MARCH 20, 1990

House of Representatives,
Subcommittee on the Legislative Process,
Committee on Rules,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:40 p.m., in room H-313, the Capitol, Hon. Butler Derrick (chairman of the subcommittee) presiding.

Present: Representatives Derrick, Wheat, Gordon, Moakley, Martin, Solomon and Pashayan.

Chairman **Derrick**. The committee will come to order.

OPENING STATEMENT OF HON. BUTLER DERRICK, CHAIRMAN OF THE SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Chairman **Derrick**. I am delighted to convene this hearing this afternoon. Today, the Subcommittee on the Legislative Process will examine H.R. 3929, a comprehensive budget process reform measure introduced by our colleague, the chairman of the House Budget Committee, Mr. Panetta.

I would like to make this observation. I have watched Leon, since he became chairman of this committee, slim down the process, but I am not so sure how much he has slimmed down.

There is a widespread perception here in Washington that the Federal budget process no longer serves the best interests of the American people. I think a reasonable person could easily draw such a conclusion, for a variety of reasons.

First, Congress and the President spend ever-increasing amounts of time and energy bickering about budget matters. The result can only be characterized as institutional and fiscal gridlock, which can't be good for the country.

Second, if we assume the elimination of the budget deficit to be the goal of the Gramm-Rudman-Hollings amendments to the process, then the process isn't living up to Congress' expectations. Federal outlays have exceeded the Gramm-Rudman deficit target every single year since the law was enacted.

Moreover, the Congressional Budget Office baseline deficit is actually higher in fiscal year 1991 than in fiscal year 1990. It has gotten so bad that Senator Hollings, one of the law's architects, has said he wants a "divorce" from Gramm and Rudman.

Third, Gramm-Rudman-Hollings can be viewed as actually counter-productive to the goal of balancing the budget. The law's emphasis on annual deficit targets certainly encourages use of rosy assumptions and budgetary gimmicks which will reduce the deficit on paper without the resulting pain of real cuts. I think we would all agree that gimmicks such as off-budget financing, payday shifts, and tax deposit speedups, which have little if any actual budgetary effect, have no place in a process whose goal is a real budget deficit reduction.

Finally, the gross Federal debt now stands somewhere, depending on what time it is, in the neighborhood of $3 trillion. The net interest we must pay to service that debt will comprise about 15 percent of all Federal outlays or over $200 billion in fiscal year 1991. These outlays buy us no roads or bridges, no health care, no national defense, no environmental cleanup, no college educations, and no victories in the war on drugs. Yet the total net interest account, which cannot be cut without a government default, consumes more and more of our scarce fiscal resources. This is probably the best measure of our success toward a sound budget policy, and it doesn't instill much confidence in the process or the decisions it produces.

It has been said that no procedures can substitute for courage and political will. That is certainly true in the Federal budget process. But although courage and leadership are necessary conditions to responsible budget decisionmaking, they are just not enough in a fragmented political system like ours. Process remains crucial, which is why we are here today examining H.R. 3929.

This afternoon we will hear the views of various House Members with special expertise or special interest in the budget process. Tomorrow we will hear from three distinguished outside experts. I look forward to hearing the testimony of every witness.

We will place the opening statement of our Ranking Minority Member, Lynn Martin in the record at this point.

[The opening statement of Representative Lynn Martin, as though read, follows:]

OPENING STATEMENT OF HON. LYNN MARTIN, RANKING MINORITY MEMBER, SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Mrs. Martin. Mr. Chairman, I am submitting this statement for the record in absentia due to prior commitments in my home State of Illinois. I did, however, want to take the opportunity to commend you on scheduling these hearings on the subject of the congressional budget process.

I also appreciate your pledge to hold additional hearings on other proposals should the subcommittee decide to move forward on legislation. By my count there are nearly 40 budget reform bills pending before our committee, and I think each of the sponsors deserves a respectful hearing before we begin any deliberations.

I want to commend Chairman Panetta and his Democratic cosponsors on the hard work they have put in on developing H.R. 3929, the so-called "pay-as-you-go" bill. I think the bill contains many meritorious ideas which deserve serious study by our subcommittee. I must, however, take strong exception to the bill's proposal to replace the Gramm-Rudman deficit targets and sequestration process with a new floating deficit system with no backup enforcement mechanism. Such an approach may or may not bring us to a balanced budget situation at some indeterminate point in the future; but, lacking either carrot or stick, the odds are against it.

While I grant you that games have been played with the current budget process—and commend Chairman Panetta's bill on outlawing some of these—I nevertheless fear that his bill may be replacing "play-as-you-go," with "pray-as-you-go." Perhaps congressional budgeting has always been a matter of flying on a wing and a prayer, but let's not clip our wings and ground ourselves in hopeless flailing and thrashing after some elusive deficit target.

I think our subcommittee can work with Chairman Panetta, Ranking Republican Bill Frenzel, the bipartisan leadership and the administration to fashion tough and effective improvements in the budget process. We have shown such a bipartisan approach can work in the ethics reforms of last session. There is no reason why it cannot also prove successful in reforming the congressional budget process. As the ranking Republican on this subcommittee, I appeal to the leadership of both parties to consider such an approach and pledge myself to do all I can to ensure its success.

Chairman **Derrick**. Without objection the text of the bill H.R. 3929 will be printed in the record at this point.

[The text of H.R. 3929 follows:]

101st CONGRESS
2d Session

H. R. 3929

To amend the Congressional Budget Act of 1974 to provide for budget process reform, to repeal sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985, to establish a pay-as-you-go basis for Federal budgeting, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

January 31, 1990

Mr. Panetta (for himself, Mr. Miller of California, Mr. Penny, Mr. Stenholm, Mr. Synar, Mr. Moody, Mr. Bates, Mr. Morrison of Connecticut, Mr. DeFazio, Mrs. Patterson, and Mr. Sikorski) introduced the following bill; which was referred jointly to the Committees on Government Operations and Rules

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A BILL

To amend the Congressional Budget Act of 1974 to provide for budget process reform, to repeal sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985, to establish a pay-as-you-go basis for Federal budgeting, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.—This Act may be cited as the "Budget Process Reform Act of 1990".

(b) Table of Contents.—

TITLE I—REPEAL OF PART C OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 AND AMENDMENTS RELATING TO PRESIDENT'S BUDGET

Sec. 101. Repeal of sequestration.
Sec. 102. Amendments relating to the President's budget.

TITLE II—PERMANENT AMENDMENTS TO THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

Sec. 201. Amendments to definitions.
Sec. 202. Title III of the Congressional Budget Act of 1974.
Sec. 203. Amendments to title IV of the Congressional Budget Act of 1974.
Sec. 204. Joint Tax Committee estimates.
Sec. 205. Duties of Congressional Budget Office.
Sec. 206. Senate waivers.

TITLE III—DEBT LEGISLATION

Sec. 301. Debt legislation.

TITLE IV—PAY AS YOU GO

Subtitle A—Short Title, Effective Dates, and Definitions

Sec. 401. Short title.
Sec. 402. Effective dates.
Sec. 403. Definitions.

Subtitle B—Spending, Revenues, and the Deficit

Sec. 410. The baseline.
Sec. 411. The budget base.
Sec. 412. The budget-year deficit requirement.
Sec. 413. Multiyear deficit requirements.
Sec. 414. Congressional use of CBO estimates.

Subtitle C—Enforcement

Sec. 420. The President's budget.
Sec. 421. The budget resolution.
Sec. 422. Congressional use of CBO estimates.

TITLE V—CONFORMING AMENDMENTS

Sec. 501. Conforming amendments to Presidential budget requirements.
Sec. 502. Conforming amendments to House and Senate rules regarding backdoor spending.
Sec. 503. Conforming amendment to House rules regarding multiyear revenue estimates.
Sec. 504. Conforming amendment to House rules regarding congressional response to Presidential order.
Sec. 505. Conforming amendments to House rules regarding reconciliation.
Sec. 506. Conforming amendment to House rules regarding suballocations.
Sec. 507. Conforming amendments to House rules, Senate rules, and the Congressional Budget Act of 1974 regarding definitions.
Sec. 508. Conforming amendment to the Congressional Budget Act of 1974 table of contents.
Sec. 509. Conforming amendment to Public Law 100–119 regarding timing shifts.

TITLE I—REPEAL OF PART C OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 AND AMENDMENTS RELATING TO THE PRESIDENT'S BUDGET

SEC. 101. REPEAL OF SEQUESTRATION.

Part C of the Balanced Budget and Emergency Deficit Control Act of 1985 is repealed.

SEC. 102. AMENDMENTS RELATING TO THE PRESIDENT'S BUDGET.

(a) Amendment to Balanced Budget and Emergency Deficit Control Act of 1985.—Sections 241(b) and 242(b) of the Balanced Budget and Emergency Deficit Control Act of 1985 are repealed.

(b) Amendments to Title 31 of the United States Code.—Sections 1105(f) and 1106(c) of title 31, United States Code, are repealed.

TITLE II—PERMANENT AMENDMENTS TO THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

SEC. 201. AMENDMENTS TO DEFINITIONS.

Section 3 of the Congressional Budget and Impoundment Control Act of 1974 is amended to read as follows:

"SEC. 3. DEFINITIONS.

"(a) OUTLAYS.—The term 'outlays' means, with respect to a fiscal year, expenditures made during that year from budget authority, and (as negative outlays) amounts received by the Government as gifts (other than excess earnings of the Federal Reserve System) or in exchange for goods or services.

"(b) REVENUES.—The term 'revenues' means, with respect to a fiscal year, receipts of the Government during that year, except (1) funds paid to the Government in exchange for goods or services, (2) gifts (other than excess earnings of the Federal Reserve System), and (3) transactions classified as means of financing the deficit.

"(c) DEFICIT AND SURPLUS.—The term 'deficit' means, with respect to a fiscal year, the amount by which outlays exceed revenues during that year. The term 'surplus' means, with respect to a fiscal year, the amount by which revenues exceed outlays during that year.

"(d) BUDGET AUTHORITY.—

"(1) IN GENERAL.—The term 'budget authority' means the authority provided by law of the Government to incur financial obligations, as follows:

"(A) Appropriations, which means the making of funds available for obligation and expenditure, including the authority to obligate and expend offsetting receipts and collections from the public.

"(B) Contract authority, which means the making of funds available for obligation but not for expenditure.

"(C) Borrowing authority, which means authority granted to a Federal entity to borrow and obligate and expend the borrowed funds, including through the issuance of promissory notes or other monetary credits.

"(D) Offsetting receipts and collections (as negative budget authority).

Such term excludes transactions classified as means of financing the deficit.

"(2) ESTIMATES OF BUDGET AUTHORITY.—Budget authority may be definite (in which the numerical amount is specified by statute) or indefinite and, therefore, subject to estimate, and includes contingent budget authority determined under section 320 to exist.

"(3) LIMITATIONS ON BUDGET AUTHORITY.—Any amount that is precluded from obligation in a fiscal year by a provision of law (such as a limitation or a benefit formula) shall not be budget authority in that year.

"(e) NEW BUDGET AUTHORITY.—The term 'new budget authority' means, with respect to a fiscal year—

"(1) budget authority that first becomes available for obligation in that year, including budget authority that becomes available in that year as the result of a reappropriation; or

"(2) a change in any account in the availability of unobligated balances of budget authority carried over from a prior year, resulting from a provision of law first effective in that year;

and includes a change in the estimated level of new budget authority provided in indefinite amounts by existing law.

"(f) SPENDING REQUIREMENT.—

"(1) The term 'spending requirement' means any provision of law that requires the Government to make payments (including payments to any Government account) regardless of the amount of budget authority that may be available to make those payments, including any spending requirement estimated to exist under section 320.

"(2) Except as provided by paragraph (3), if a provision of law that requires the Government to make payments is limited by any other provision of law to the amount of available budget authority (directly, or by providing for pro rata reductions in payments, changes in eligibility, changes in employment, or through other means), then a spending requirement does not exist.

"(3) For purposes of paragraph (2), subchapter II of chapter 13 of title 31, United States Code (formerly the Anti-Deficiency Act) shall not be considered a provision of law that limits a spending requirement to the amount of available budget authority.

"(g) NEW SPENDING REQUIREMENT.—The term 'new spending requirement' means any legislation creating a spending requirement (or altering an existing spending requirement) that was not enacted before the date of adoption of the most recently agreed-to budget resolution, and includes a change in the estimated level of spending requirements created in indefinite amounts by existing law.

"(h) OFFSETTING RECEIPTS AND COLLECTIONS.—The term 'offsetting receipts and collections' means amounts received by the Government in exchange for goods or services or as gifts (other than the excess earnings of the Federal Reserve System).

"(i) BUDGET YEAR.—The term 'budget year' means, with respect to a session of Congress, the fiscal year of the Government that starts on October 1 of the calendar year in which that session begins.

"(j) OUTYEAR.—The term 'outyear' means, with respect to a budget year, any of the four fiscal years that immediately follow that budget year.

"(k) CURRENT YEAR.—The term 'current year' means, with respect to a budget year, the fiscal year that immediately precedes that budget year.

"(l) GOVERNMENT-SPONSORED ENTERPRISE.—The term 'government-sponsored enterprise' means an entity created by a law of the United States that—

"(1) may not exercise powers that are reserved to the Government as sovereign (such as the power to tax, to levy fees for which no goods or services are provided, or to regulate interstate commerce);

"(2) may not commit the Government financially (but it may be a recipient of a loan guarantee commitment made by the Government);

"(3) is privately owned, and such ownership is not required as a condition of maintaining such owner's business or profession;

"(4) is controlled by a board of directors, a majority of which is elected by private owners; and

"(5) has employees, none of whom is employed by the Government.

"(m) TAX EXPENDITURES.—The term 'tax expenditures' means those revenue losses attributable to provisions of the Federal tax laws that allow a special exclusion, exemption, or deduction from gross income or that provide a special credit, a preferential rate of tax, or a deferral of tax liability, and the term 'tax expenditures budget' means a listing of such tax expenditures.

"(n) ASSET SALE.—The term 'asset sale' means the sale to the public of—

"(1) any financial asset other than a loan asset, or

"(2) any physical asset other than one produced on a current basis.

"(o) TIMING SHIFT.—(1) The term 'timing shift' means a change in the date on which an obligation, outlay, revenue, receipt, or collection of the Government would otherwise be made or received that reduces the deficit or increases the surplus in any fiscal year, except that in the case of a date change of 365 days or more, each complete increment of 365 days shall not be considered a timing shift.

(2) The term 'new timing shift' means a timing shift not enacted, promulgated as final, or formally announced before the immediately preceding January 1.

"(p) MEANS OF FINANCING THE DEFICIT.—The term 'means of financing the deficit' means, with respect to a fiscal year, financial transactions of the Government that consist of exchanges of money or monetary proxies of equal value during that year and therefore are not counted as outlays or revenues, such as Federal borrowing from the public, debt redemption, seigniorage on coins and profits from the sale of gold, proceeds of asset sales, and changes in outstanding checks and other monetary credits (including write-offs of checks and credits).

"(q) CONCURRENT RESOLUTION ON THE BUDGET.—The term 'concurrent resolution on the budget' or 'budget resolution' means a concurrent resolution establishing the congressional budget for the Government for a fiscal year as provided in section 301 or revising it as described in section 304.".

SEC. 202. TITLE III OF THE CONGRESSIONAL BUDGET ACT OF 1974.

Title III of the Congressional Budget Act of 1974 is amended to read as follows:

"TITLE III—CONGRESSIONAL BUDGET PROCESS

"Subtitle I—Budget Resolutions and Implementing Legislation

"SEC. 300. TIMETABLE.

"The timetable with respect to the congressional budget process for any budget year is as follows:

"On or before:	**Action to be completed:**
Second Monday after January 3.......	President submits the budget.
February 15....................................	Congressional Budget Office submits report to Budget Committees.
February 25....................................	Committees submit views and estimates to Budget Committees.

"On or before:	Action to be completed:
May 1	Congress completes action on concurrent resolution on the budget.
May 1	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports all regular appropriation bills; House and Senate committees submit reconciliation legislation.
June 30	House passes all regular appropriation bills; House and Senate pass reconciliation bills.
August 5	Senate passes all regular appropriation bills; Congress completes reconciliation bill.
October 1	Budget year begins.

"SEC. 301. ADOPTION OF BUDGET RESOLUTION.

"(a) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before February 25 of each year, each committee of the House of Representatives or the Senate shall submit to the Committee on the Budget of its House its views and estimates (as determined by the committee making such submission) with respect to all matters set forth in subsections (c) and (d) that relate to matters within the legislative jurisdiction of the committee, including estimated costs of prospective direct spending or revenue legislation in each of the years to be covered by the budget resolution, and estimated savings in each such year from prospective direct spending or revenue legislation. The Joint Economic Committee shall submit to the Committee on the Budget of both Houses its recommendations as to fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House of Representatives or the Senate may submit to the Committee on the Budget of its House, and any joint committee of the Congress may submit to the Committee on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsections (c) and (d) that relate to matters within its jurisdiction or functions.

"(b) HEARINGS.—In developing the budget resolution for each fiscal year, the Committee on the Budget of each House shall hold hearings and shall receive testimony from Members of Congress and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as the committee deems desirable.

"(c) CONTENT OF BUDGET RESOLUTIONS.—On or before May 1 of each year, Congress shall complete action on a concurrent resolution on the budget. The budget resolution shall set forth appropriate levels for the current year, the budget year, and each outyear of the following—

"(1) totals of new budget authority and outlays;

"(2) total revenues;

"(3) the surplus or deficit;

"(4) the public debt; and

"(5) totals within each major functional category of new budget authority and outlays.

"(d) ADDITIONAL MATTER IN BUDGET RESOLUTIONS.—(1) The concurrent resolution on the budget—

"(A) shall include reconciliation directives when required by section 303;

"(B) may set forth the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved; and

"(C) may set forth other matters and require other procedures, relating to the budget, as appropriate to carry out the purposes of this Act.

"(2) If the Committee on the Budget of the House of Representatives reports any concurrent resolution on the budget that includes any procedure or matter having the effect of changing any rule of the House of Representatives, such concurrent resolution shall then be referred to the Committee on Rules with instructions to report it within five calendar days (not counting any day on which the House is not in session). The Committee on Rules shall have jurisdiction to report any concurrent resolution referred to it under this paragraph with an amendment or amendments changing or striking out any such procedure or matter.

"(e) REPORTS.—The report accompanying a budget resolution shall include—

"(1) a comparison of revenues set forth in the budget resolution with those estimated in the budget submitted by the President;

"(2) a comparison of the appropriate levels of total outlays and total new budget authority set forth in the budget resolution with those estimated or requested in the budget submitted by the President;

"(3) an allocation of the level of Federal revenues recommended in the budget resolution among the major sources of such revenues;

"(4) spending allocations described in section 310;

"(5) the economic assumptions and objectives which underlie each of the matters set forth in the budget resolution;

"(6) an analysis of the major components of, and reasons for, year-to-year outlay and revenue growth during the period covered by the resolution;

"(7) a statement of any significant changes in the proposed levels of Federal assistance to State and local governments; and

"(8) information, data, and comparisons indicating the manner in which, and the basis on which, the committee determined each of the matters set forth in the concurrent resolution.

"(f) ACHIEVEMENT OF GOALS FOR REDUCING UNEMPLOYMENT.—

"(1) If, under section 4(c) of the Employment Act of 1946, the President recommends in the Economic Report for a budget year that the goals for reducing unemployment set forth in section 4(b) of such Act be achieved in a year after the close of the five-year period prescribed by such subsection, the budget resolution for that budget year may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

"(2) After Congress has expressed its opinion under paragraph (1) as to the year in which the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 can be achieved, if the President recommends in the Economic Report for a budget year that such goals be achieved in a different year than specified by Congress, the budget resolution for that budget year may set forth the year in which, in the opinion of the Congress, such goals can be achieved.

"(3) It shall be in order to amend the provision of such resolution setting forth such year only if the amendment thereto also proposes to alter the estimates, amounts, and levels (as described in subsection (c)) set forth in such resolution in germane fashion in order to be consistent with the economic goals (as described in sections 3(a)(2) and (4)(b) of the Employment Act of 1946) that the amendment proposes can be achieved in the year specified in the amendment.

"(g) ECONOMIC ASSUMPTIONS.—

"(1) The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall set forth the common economic assumptions upon which such joint statement and conference report are based, or upon which any amendment contained in the joint explanatory statement to be proposed by the conferees in the case of technical disagreement, is based.

"(2) It shall not be in order in the Senate to consider any concurrent resolution on the budget for a fiscal year, or any amendment thereto or conference report thereon, that sets forth amounts and levels that are determined on the basis of more than one set of economic and technical assumptions.

"(h) BUDGET COMMITTEES' CONSULTATION WITH COMMITTEES.—The Committee on the Budget of the House of Representatives and the Committee on the Budget of the Senate shall consult with the committees of its House having legislative jurisdiction during the preparation, consideration, and enforcement of the concurrent resolution on the budget with respect to all matters that relate to the jurisdiction or functions of such committees.

"SEC. 302. CONSIDERATION OF BUDGET RESOLUTIONS.

"(a) PROCEDURES IN THE HOUSE OF REPRESENTATIVES AFTER REPORT OF COMMITTEE; DEBATE; AMENDMENTS.—

"(1) When the Committee on the Budget of the House of Representatives has reported any concurrent resolution on the budget, it is in order at any time after the fifth day (excluding Saturdays, Sundays, and legal holidays) following the day on which the report upon such resolution by the Committee on the Budget has been available to Members of the House and, if applicable, after the first day (excluding Saturdays, Sundays, and legal holidays) following the day on which a report upon such resolution by the Committee on Rules under section 301(d)(2) has been available to Members of the House (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the concurrent resolution. The motion is highly privileged and is not debatable. An amendment to the motion is not in order, and it is not in order to move to reconsider the vote by which the motion is agreed to or disagreed to.

"(2) General debate on any concurrent resolution on the budget in the House of Representatives shall be limited to not more than 10 hours, which shall be divided equally between the majority and minority parties, and which shall include the hours of debate consumed under subsection (c)(1). A motion further to limit debate is not debatable. A motion to recommit the concurrent resolution is not in order, and it is not in order to move to reconsider the vote by which the concurrent resolution is agreed to or disagreed to.

"(3) Consideration of any budget resolution by the House of Representatives shall be in the Committee of the Whole, and the resolution shall be considered for amendment under the five-minute rule in accordance with the applicable provisions of rule XXIII of the Rules of the House of Representatives. After the Committee rises and reports the resolution back to the House, the previous question shall be considered as ordered on the resolution and any amendments thereto to final passage without intervening motion; except that it shall be in order at any time prior to final passage (notwithstanding any other rule or provision of law) to adopt an amendment (or series of amendments) changing any figure or figures in the resolution as so reported to the extent necessary to achieve mathematical consistency.

"(4) Debate in the House of Representatives on the conference report on any concurrent resolution on the budget shall be limited to not more than 5 hours, which shall be divided equally between the majority and minority parties. A motion further to limit debate is not debatable. A motion to recommit the conference report is not in order, and it is not in order to move to reconsider the vote by which the conference report is agreed to or disagreed to.

"(5) Appeals from decisions of the Chair relating to the application of the Rules of the House of Representatives to the procedure relating to any budget resolution shall be decided without debate.

"(b) PROCEDURES IN THE SENATE AFTER REPORT OF COMMITTEE; DEBATE; AMENDMENTS.—

"(1) Debate in the Senate on any budget resolution, and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 50 hours, except that with respect to any budget resolution referred to in section 304 all such debate shall be limited to not more than 15 hours. The time shall be equally divided between, and controlled by, the majority leader and the minority leader or their designees.

"(2) Debate in the Senate on any amendment to a budget resolution shall be limited to 2 hours, to be equally divided between, and controlled by, the mover and the manager of the budget resolution, and debate on any amendment to an amendment, debatable motion, or appeal shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the budget resolution, except that in the event the manager of the budget resolution is in favor of any such amendment, motion, or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. No amendment that is not germane to the provisions of the budget resolution shall be received. Such leaders, or either of them, may, from the time under their control on the passage of the budget resolution, allot additional time to any Senator during the consideration of any amendment, debatable motion, or appeal.

"(3) A motion to further limit debate is not debatable. A motion to recommit (except a motion to recommit with instructions to report back within a specified number of days, not to exceed 3, not counting any day on which the Senate is not in session) is not in order. Debate on any such motion to recommit shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the budget resolution.

"(4) Notwithstanding any other rule, an amendment or series of amendments to a budget resolution proposed in the Senate shall always be in order if such amendment or series of amendments proposes to change any figure or figures then contained in such budget resolution so as to make such budget resolution mathematically consistent or so as to maintain such consistency.

"(c) PROCEDURES APPLICABLE TO BOTH HOUSES.—

"(1) Following the presentation of opening statements on the budget resolution for a fiscal year by the chairman and ranking minority member of the Committee on the Budget, there shall be a period of up to four hours for debate on economic goals and policies.

"(2) Only if a budget resolution sets forth the economic goals (as described in sections 3(a)(2) and (4)(b) of the Full Employment Act of 1946) that the estimates, amounts, and levels set forth in that resolution are designed to achieve, shall it be in order to offer to that resolution an amendment relating to those goals, and that amendment shall be in order only if it also proposes to alter such estimates, amounts, and levels in germane fashion in order to be consistent with the goals proposed in such amendment.

"(3) It shall not be in order to consider any amendment to a budget resolution that changes any figure contained therein by any amount other than one or more complete increments of $50 million.

“(d) ACTION ON CONFERENCE REPORTS IN THE SENATE.—

“(1) The conference report on any budget resolution shall be in order in the Senate at any time after the third day (excluding Saturdays, Sundays, and legal holidays) following the day on which such conference report may be made even though a previous motion to the same effect has been disagreed to.

“(2) During the consideration in the Senate of the conference report on any budget resolution, and all amendments in disagreement, and all amendments thereto, and debatable motions and appeals in connection therewith, debate shall be limited to 10 hours, to be equally divided between, and controlled by, the majority leader and minority leader or their designees. Debate on any debatable motion or appeal related to the conference report shall be limited to 1 hour, to be equally divided between, and controlled by, the mover and the manager of the conference report.

“(3) Should the conference report be defeated, debate on any request for a new conference and the appointment of conferees shall be limited to 1 hour, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee, and should any motion be made to instruct the conferees before the conferees are named, debate on such motion shall be limited to one-half hour, to be equally divided between, and controlled by, the mover and the manager of the conference report. Debate on any amendment to any such instructions shall be limited to 20 minutes, to be equally divided between and controlled by the mover and the manager of the conference report. In all cases when the manager of the conference report is in favor of any motion, appeal, or amendment, the time in opposition shall be under the control of the minority leader or his designee.

"(4) In any case in which there are amendments in disagreement, time on each amendment shall be limited to 30 minutes, to be equally divided between, and controlled by, the manager of the conference report and the minority leader or his designee. No amendment that is not germane to the provisions of such amendments shall be received.

"(e) REQUIRED ACTION BY CONFERENCE COMMITTEE.—If at the end of the 10-day period (excluding Saturdays, Sundays, and legal holidays) beginning the day after the conferees of both Houses have been appointed to a committee of conference on a budget resolution, the conferees are unable to reach agreement with respect to all matters in disagreement between the two Houses, then the conferees shall submit to their respective Houses, on the first day thereafter on which their House is in session—

"(1) a conference report recommending those matters on which they have agreed and reporting in disagreement those matters on which they have not agreed; or

"(2) a conference report in disagreement, if the matter in disagreement is an amendment which strikes out the entire text of the budget resolution and inserts a substitute text.

"(f) SENATE VOTES AND MATHEMATICAL CONSISTENCY.—It shall not be in order in the Senate to vote on the question of agreeing to—

"(1) a budget resolution unless the figures then contained in such resolution are mathematically consistent; or

"(2) a conference report on a budget resolution unless the figures contained in such resolution, as recommended in such conference report, are mathematically consistent.

"SEC. 303. RECONCILIATION.

"(a) REQUIRED RECONCILIATION DIRECTIVES IN BUDGET RESOLUTIONS.—

"(1) If, for any fiscal year covered by a budget resolution, that resolution assumes the enactment of legislation (other than legislation making discretionary appropriations) that would decrease the deficit (or increase the surplus) as compared to existing law, then that resolution shall include reconciliation directives that—

"(A) specify the amount by which outlays (resulting from new budget authority or spending requirements within the jurisdiction of a committee) are to be decreased and direct that committee to propose changes in law sufficient to accomplish that outlay decrease;

"(B) specify the amount by which revenues are to be increased and direct the committees of jurisdiction to propose changes in law sufficient to accomplish that revenue increase;

"(C) specify the amount by which the deficit is to be changed and direct committees to propose changes in laws within their jurisdiction sufficient to accomplish that change; or

"(D) specify and direct any combination of the matters described in subparagraphs (A), (B), and (C).

Reconciliation directives may also cover assumed legislation (other than discretionary appropriations) that would increase the deficit (or reduce the surplus).

"(2) It shall not be in order in the House of Representatives or the Senate to consider a budget resolution, or any amendment thereto or conference report thereon, that contains reconciliation directives to any committee to make changes in discretionary appropriations or in the authorization of such appropriations.

"(b) REPORTING RECONCILIATION LEGISLATION.—

"(1) If a budget resolution directing one or more committees to propose changes in laws under subsection (a) is agreed to by Congress, each committee so directed shall make those legislative proposals and submit them to the Committee on the Budget of its House by June 10 of the current year.

"(2) At the same time each committee submits its legislative proposals, it shall also submit to the Committee on the Budget of its House all the material that would be required by the rules of that House if the legislative proposals were bills to be reported to that House; and submit a categorization of each provision in its proposal as either (A) a reduction in outlays; (B) an increase in outlays; (C) a reduction in revenues or offsetting receipts; (D) an increase in revenues or offsetting receipts; (E) a budgetary provision with costs estimated at zero; (F) a cost-avoidance in discretionary programs; (G) changes in the level of authorization of discretionary appropriations; or (H) non-budgetary.

"(3) The Committee on the Budget of each House shall promptly report to its House a reconciliation bill carrying out all such proposals without any substantive revision.

"(c) PROCEDURE IN THE SENATE.—

"(1) Except as provided in paragraph (2), the provisions of section 302 for the consideration in the Senate of budget resolutions and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills reported under subsection (b) and conference reports thereon.

"(2) Debate in the Senate on any reconciliation bill reported under subsection (b), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

"(d) AMENDMENTS TO RECONCILIATION BILLS.—

"(1) It shall not be in order in the House of Representatives or the Senate to consider any amendment to a reconciliation bill if that amendment would have the effect of increasing outlays for any item above the level of such outlays otherwise resulting from the bill (for the fiscal years covered by the reconciliation directive under subsection (a)), or would have the effect of reducing any revenue item below the level of such revenues otherwise resulting from the bill (for such fiscal years), unless such amendment makes at least an equivalent reduction in other outlays, an equivalent increase in other revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision shall always be in order in the Senate.

"(2) Paragraph (1) shall not apply if a declaration of war by the Congress is in effect.

"(3) The Committee on Rules of the House of Representatives may make in order amendments to achieve changes specified by reconciliation directives under subsection (a) if a committee of the House fails to submit proposals to its Committee on the Budget pursuant to its directive or if the proposals submitted by a committee do not comply with its directive.

"(4) LIMITATION ON CHANGES TO SOCIAL SECURITY ACT.—It shall not be in order in the Senate or the House of Representatives to consider any provision of a reconciliation bill reported under subsection (b) or any conference report thereon or amendment thereto that amends provisions of the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

"(e) COMPLETION OF RECONCILIATION PROCESS.—

"(1) IN GENERAL.—The House of Representatives and the Senate shall pass the reconciliation bill reported under subsection (b) not later than June 30 of each year and shall complete action on that bill by August 5 of that year.

"(2) POINT OF ORDER.—It shall not be in order in the House of Representatives or the Senate to consider any resolution providing for an adjournment period of more than three calendar days after August 5 of any year in which a reconciliation directive is issued under subsection (a) until Congress completes action on the reconciliation bill for that year reported under subsection (b).

"SEC. 304. PERMISSIBLE REVISIONS OF BUDGET RESOLUTIONS.

"Any time after a budget resolution has been agreed to under section 301, the two Houses may adopt a concurrent resolution that revises that budget resolution. The revised budget resolution and the report thereon shall meet the requirements and be subject to the procedures set forth in section 301 (except the May 1 requirement) and shall be considered a budget resolution under section 301.

"SEC. 305. APPROPRIATION BILLS.

"(a) REPORTED TO HOUSE BY JUNE 10.—On or before June 10 of each year, the Committee on Appropriations of the House of Representatives shall report annual appropriation bills providing new budget authority under the jurisdiction of all of its subcommittees for the budget year.

"(b) HOUSE PASSAGE BY JUNE 30.—It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days after June 30 of any year until the House of Representatives has approved annual appropriation bills providing new budget authority under the jurisdiction of all the subcommittees of the Committee on Appropriations for the budget year.

"(c) SENATE PASSAGE BY AUGUST 5.—It shall not be in order in the Senate to consider any resolution providing for an adjournment period of more than three calendar days after

August 5 of any year until the Senate has approved annual appropriation bills providing new budget authority under the jurisdiction of all the subcommittees of the Committee on Appropriations for the budget year.

"SEC. 306. LEGISLATION DEALING WITH CONGRESSIONAL BUDGET MUST BE HANDLED BY BUDGET COMMITTEES.

"No bill or resolution, and no amendment to any bill or resolution, dealing with any matter within the jurisdiction of the Committee on the Budget of either House shall be considered in that House unless it is a bill or resolution that has been reported by the Committee on the Budget of that House (or from the consideration of which such committee has been discharged) or unless it is a germane amendment to such a bill or resolution.

"Subtitle II—Enforcement

"SEC. 310. COMMITTEE SPENDING ALLOCATIONS.

"(a) HOUSE OF REPRESENTATIVES.—

"(1) ALLOCATION AMONG COMMITTEES.—The joint explanatory statement accompanying a conference report on a budget resolution shall include an allocation, consistent with the resolution recommended in the conference report, of the appropriate levels of—

"(A) total new budget authority,

"(B) total spending requirements, and

"(C) total outlays;

among each committee of the House of Representatives that has jurisdiction over legislation providing or creating such amounts.

"(2) NO DOUBLE COUNTING.—Any item allocated to one committee of the House of Representatives may not be allocated to another such committee.

"(3) FURTHER DIVISION OF AMOUNTS.—The amounts allocated to each committee for each fiscal year, other than the Committee on Appropriations, shall be further divided between amounts provided or required by law on the date of filing of that conference report and amounts not so provided or required. The amounts allocated to the Committee on Appropriations for each fiscal year shall be further divided between discretionary and mandatory amounts or programs, as appropriate.

"(b) SENATE ALLOCATION AMONG COMMITTEES.— The joint explanatory statement accompanying a conference report on a budget resolution shall include an allocation, consistent with the resolution recommended in the conference report, of the appropriate levels of—

"(1) total new budget authority, and

"(2) total outlays;

among each committee of the Senate that has jurisdiction over legislation providing or creating such amounts.

"(c) Fiscal Years Covered by Allocation.—For the Committee on Appropriations of each House, amounts shall be separately allocated for the budget year and the current year. For all other committees, amounts shall be separately allocated for each fiscal year covered by that resolution.

"(d) Amounts Not Allocated.—If a committee receives no allocation of new budget authority or spending requirements, that committee shall be deemed to have received an allocation equal to zero for new budget authority or spending requirements.

"SEC. 311. SUBALLOCATIONS BY THE APPROPRIATIONS COMMITTEES.

"(a) Initial Suballocations.—As soon as practicable after a budget resolution is agreed to, the Committee on Appropriations of each House (after consulting with the Committee on Appropriations of the other House) shall suballocate each amount allocated to it for the budget year under sections 310 among its subcommittees.

"(b) Revised Allocation.—If a revised allocation is made in connection with a revised budget resolution under section 304, the Committees on Appropriations shall make revised suballocations if amounts allocated to them have been changed.

"(c) REVISED SUBALLOCATIONS.—The Committee on Appropriations of either House may revise any suballocations it makes under this section.

"(d) FILING.—Each Committee on Appropriations shall promptly report to its House suballocations made or revised under this section.

"SEC. 312. ADOPTION OF BUDGET RESOLUTION MUST PRECEDE CONSIDERATION OF BUDGET LEGISLATION.

(a) IN GENERAL.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution as reported to its House, or amendment thereto or conference report thereon, that—

"(1) provides new budget authority for a fiscal year;

"(2) creates a new spending requirement that is first effective in a fiscal year; or

"(3) provides a decrease in revenues that is first effective in a fiscal year;

until a budget resolution covering that year is adopted, allocations have been made under section 310, and in the case of legislation reported by the Committee on Appropriations of either House, suballocations have been filed under section 311.

"(b) EXCEPTIONS.—Subsection (a) shall not apply to—

"(1) new budget authority for the budget year in any appropriation bill or resolution making continuing appropriations, or amendment thereto or conference report thereon, that is considered after May 1 and before the following January 1 if a budget resolution for that budget year has not been adopted;

"(2) new budget authority for any outyear in any appropriation bill or resolution making continuing appropriations, or amendment thereto or conference report thereon; or

"(3) new budget authority in a fiscal year beyond the last year covered by the most recent allocation made under section 310 if that new budget authority occurs in such year as the result of a spending requirement first effective during the period covered by that allocation.

"(c) PROCEDURE FOR WAIVER IN THE SENATE.—

"(1) The committee of the Senate that reports any bill or resolution (or amendment thereto) to which subsection (a) applies may, at or after the time it reports such bill or resolution (or amendment), report a resolution to the Senate—

"(A) providing for the waiver of subsection (a) with respect to that bill or resolution (or amendment), and

"(B) stating the reasons why the waiver is necessary.

The resolution shall then be referred to the Committee on the Budget of the Senate. That committee shall report the resolution to the Senate within 10 days after the resolution is referred to it (not counting any day on which the Senate is not in session) beginning with the day following the day on which it is so referred, accompanied by that committee's recommendations and reasons for such recommendations with respect to the resolution. If the committee does not report the resolution within the 10-day period, it shall automatically be discharged from further consideration of the resolution and the resolution shall be placed on the calendar.

"(2) During the consideration of any such resolution, debate shall be limited to one hour, to be equally divided between, and controlled by, the majority leader and minority leader or their designees, and the time on any debatable motion or appeal shall be limited to twenty minutes, to be equally divided between, and controlled by, the mover and the manager of the resolution. In the event the manager of the resolution is in favor of any such motion or appeal, the time in opposition thereto shall be controlled by the minority leader or his designee. Such leaders, or either of them, may, from the time under their control on the passage of such resolution, allot additional time to any Senator during the consideration of any debatable motion or appeal. No amendment to the resolution is in order.

"(3) If, after the Committee on the Budget has reported (or been discharged from further consideration of) the resolution, the Senate agrees to the resolution, then subsection (a) shall not apply with respect to the bill or resolution (or amendment thereto) to which the resolution so agreed to applies.

"SEC. 313. ENFORCING SPENDING AND REVENUE FIGURES.

"It shall not be in order in the House of Representatives or the Senate to consider any spending or revenue legislation if, as proposed to be enacted and when added to amounts already enacted (if any), it would breach the appropriate allocation of new budget authority or new spending requirements under, or the aggregate levels of revenues established in, the most recently agreed-to budget resolution.

"SEC. 314. INTERPRETATION OF POINTS OF ORDER.

"For purposes of section 313—

"(1) LEGISLATION.—The term 'legislation' means—

"(A) any bill, resolution, or conference report, (as reported to its House); or

"(B) any amendment.

"(2) SPENDING LEGISLATION.—The term 'spending legislation' means legislation providing new budget authority for a fiscal year or creating new spending requirements effective in a fiscal year.

"(3) REVENUE LEGISLATION.—The term 'revenue legislation' means legislation that results in a change in the level of revenues in a fiscal year.

"(4) ENACT.—The term 'enact' means passage of a bill or resolution in identical form by both Houses, except a vetoed bill or resolution when the veto message is referred to committee in either House or when either House votes to sustain the veto.

"(5) BREACH.—The term 'breach' means—

"(A) with regard to a level of new budget authority or new spending requirements (as applicable), exceed or further exceed; or

"(B) with regard to an aggregate level of revenues, fall below, or fall further below.

"(6) AGGREGATE LEVELS OF REVENUES.—The term 'aggregate levels of revenues' means the total level of revenues under section 301(c)(2) for the budget year, for the current year, or for the total six-year period comprising the current year, the budget year, and the outyears.

"(7) APPROPRIATE ALLOCATION IN THE HOUSE.—

"(A) With regard to the Committee on Appropriations of the House of Representatives, the term 'appropriate allocation' means—

"(i) the allocation to that committee of discretionary budget authority for the budget year under section 310 and each suballocation of that discretionary budget authority under section 311; or

"(ii) the allocation to that committee of discretionary budget authority for the current year under section 310.

"(B) With regard to any other committee of the House of Representatives, the term 'appropriate allocation' means its allocation under section 310 of amounts of spending requirements or new budget authority not provided or required by law on the date of filing of the conference report on that year's budget resolution (i) for the budget year; (ii) for the current year; or (iii) for the six-year period comprising the current year, the budget year, and the outyears.

"(8) APPROPRIATE ALLOCATION IN THE SENATE.—The term 'appropriate allocation' means—

"(A) with regard to the Committee on Appropriations of the Senate—

"(i) the allocation to that committee of new budget authority for the budget year under section 310 and each suballocation of new budget authority under section 311; or

"(ii) the allocation to that committee of new budget authority for the current year under section 310; and

"(B) with regard to any other committee of the Senate, its allocation under section 310 of new budget authority for the budget year, for the current year, or for the total six-year period comprising the current year, the budget year, and the outyears.

"Subtitle III—Scorekeeping

"SEC. 320. BUDGET COMMITTEE DETERMINATIONS.

"(a) DETERMINATIONS.—For purposes of determinations and points of order under sections 312 and 313, the existence and levels of spending requirements, new budget authority, and revenues for a fiscal year shall be determined on the basis of classifications and estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be, after consultation with the Congressional Budget Office.

"(b) GUIDELINES.—Among the guidelines which the Committees on the Budget shall apply in carrying out their duties under subsection (a) are the following:

"(1) Determinations by the Committees on the Budget shall be based upon the common economic and technical assumptions set forth in the joint explanatory statement accompanying the most recently agreed to budget resolution.

"(2) Whenever a law, bill, or resolution makes the existence or levels of revenues, spending requirements, or new budget authority (other than discretionary appropriations) contingent upon conditions (other than the enactment of subsequent legislation), the conditions shall be assumed to be satisfied except to the extent that the Committee on the Budget of the appropriate House determines otherwise.

"(3) Whenever the level of revenues, spending requirements, or new budget authority (other than discretionary appropriations) provided by a law, bill, or resolution is affected by administrative or other discretion, the Committee on the Budget of the appropriate House shall make its best estimate of the effect of such discretion on such level.

"(4) Whenever an appropriation provides discretionary new budget authority contingent upon the enactment of legislation other than future appropriation Acts, that appropriation shall be deemed to provide the new budget authority.

"SEC. 321. DIRECTED SCOREKEEPING AND OFF-BUDGET DESIGNATIONS.

"(a) SCORING ONLY AFTER ENACTMENT.—In determining any classification or estimate of new budget authority, outlays, spending requirements, and revenues under titles III and IV, the definitions and guidelines in this Act shall be used unless legislation enacted, or a resolution agreed to, before the determination of such classification or estimate specifically directs otherwise.

"(b) BUDGETARY TREATMENT OF GOVERNMENT-SPONSORED ENTERPRISES.—A Government-sponsored enterprise is not a Federal entity under this Act and shall be excluded from the totals of the budget of the United States.

"(c) POINTS OF ORDER.—

"(1) No bill or resolution carrying a direction that existing law, pending legislation, or future legislation be scored in a manner inconsistent with this Act or projected in a manner inconsistent with the Pay-As-You-Go Act of 1990 shall be reported by any committee other than the Committee on the Budget or the

Committee on Rules in the House of Representatives or the Committee on the Budget or the Committee on Rules and Administration in the Senate. No amendment carrying such a direction shall be in order during consideration of a bill or resolution not reported by one of those committees. A question of order on such a direction may be raised at any time.

"(2) No bill or resolution excluding a new or existing Federal entity from the budget of the United States may be reported by any committee other than the Committee on Government Operations in the House of Representatives or the Committee on Governmental Affairs in the Senate. No amendment carrying such an exclusion shall be in order during consideration of a bill or resolution not reported by one of those committees. A question of order on such an exclusion may be raised at any time.

"(3) It shall not be in order in the House of Representatives or the Senate to consider a conference report that contains matter that would be a violation of paragraph (1) or (2) if contained in a reported bill or resolution.

"SEC. 322. NEW TIMING SHIFTS NOT COUNTED.

"Changes in the level of new budget authority, new spending requirements, outlays, or revenues resulting from new timing shifts shall not be counted.

"SEC. 323. BILL COST ESTIMATES; BUDGET COMMITTEE SCOREKEEPING REPORTS.

"(a) COMMITTEE REPORTS ON LEGISLATION.—

"(1) Whenever a committee of either House reports a bill or resolution or committee amendment thereto, providing new budget authority (except a continuing appropriation for less than the entire fiscal year) or increasing or decreasing spending requirements or revenues in one or more fiscal years, the report accompanying that bill or resolution shall contain a statement, or the committee shall make available such a statement in the case of an approved committee amendment that is not reported to its House, prepared after consultation which the Director of the Congressional Budget Office, that—

"(A) compares the levels in such measure to the appropriate allocations or suballocations under section 310 or 311 for the most recently agreed to budget resolution for such fiscal years;

"(B) includes an identification of any new spending requirements contained in such measure and a justification for the use of that financing method instead of annual discretionary appropriations;

"(C) contains an estimate by the Congressional Budget Office of how such measure will affect the levels of new budget authority, outlays, spending requirements, and revenues for the current year, budget year, and outyears, if timely submitted;

"(D) contains an identification prepared by the CBO of each provision that is a new timing shift as defined in this Act, if timely submitted; and

"(E) contains an estimate by the Congressional Budget Office of the level of new budget authority for assistance to State and local governments provided by such measure, if timely submitted.

"(2) Whenever a conference report is filed in either House and such conference report or any amendment reported in disagreement or any amendment contained in the joint statement of managers to be proposed by the conferees in the case of technical disagreement on such bill or resolution provides new budget authority (except a continuing appropriation for less than the entire fiscal year) or increases or decreases spending requirements or revenues for a fiscal year, the statement of managers accompanying such conference report shall contain the information described in paragraph (1), if available on a timely basis. If such information is not available when the conference report is filed, the committees of jurisdiction shall make such information available to the Members as soon as practicable before the consideration of such conference report.

"(b) UP-TO-DATE BUDGET COMMITTEE TABULATIONS OF CONGRESSIONAL BUDGET ACTION.—The Committee on the Budget of each House shall make available to Members of its House summary budget scorekeeping reports. Such reports—

"(1) shall be made available on at least a monthly basis, but in any case frequently enough to provide Members of each House an accurate representation of the current status of congressional consideration of the budget;

"(2) shall include summaries of the levels of new budget authority, spending requirements, outlays, and revenues associated with existing law and with bills and resolutions passed by the respective House; and

"(3) shall be based on information provided by the Congressional Budget Office.

The chairman of the Committee on the Budget of the House of Representatives shall submit such reports to the Speaker.

"Subtitle IV—Credit and Deposit Insurance Accounting

"SEC. 331. COST TO THE GOVERNMENT.

"As used in this subtitle, the term 'cost' means the cost to the Government of any direct loan or loan guarantee, including the cost of and receipts from insurance purchased by the Government, except indirect costs such as administrative costs or any effect on revenues, and shall be calculated as follows:

"(1) Direct loans.—For a direct loan to the public made by the Government, the difference between the face value of the loan and the net present value of—

"(A) the expected repayments of principal; and

"(B) payments of interest and other payments;

to the Government by the borrower over the life of the loan, after adjusting for estimated defaults, prepayments, fees, penalties, and any other recoveries.

"(2) Loan guarantees.—

"(A) In general.—For a loan made by a private lender to a private borrower that is guaranteed as to principal or interest, in whole or in part, by the Government, the net present value of (i) estimated payments by the Government to cover defaults, (ii) any interest payments made by the Government, and (iii) receipts (such as origination and other fees, penalties, and other recoveries) by the Government.

"(B) DEPOSIT INSURANCE.—Deposit insurance shall be treated as a loan guarantee.

"(3) CHANGES IN COSTS.—Any government action that alters any factors used in estimating costs of direct loans or loan guarantees shall be treated as increasing or decreasing, as the case may be, the cost to the Government of such loans or guarantees.

"(4) DISCOUNT RATE.—The estimated average interest rate on new issues of Treasury securities of similar maturity to the direct loans or loan guarantees being estimated shall be used as the discount to present value.

"SEC. 332. BUDGETARY ACCOUNTING.

"(a) NEW BUDGET AUTHORITY.—The authority to incur new direct loan obligations or make new loan guarantee commitments is new budget authority in an amount equal to the cost (as defined in section 331), in the fiscal year in which the authority to incur the obligation or commitment becomes available.

"(b) OUTLAYS.—Outlays resulting from new budget authority referred to in subsection (a) shall be recorded in the fiscal years in which a direct loan is disbursed or a loan guarantee commitment is made.

"(c) RESIDUAL CASH FLOW.—

"(1) IN GENERAL.—All flows of cash relating to direct loan obligations and loan guarantee commitments (including those made before fiscal year 1991) other than the outlays recorded pursuant to subsection (b) shall be a means of financing the deficit.

"(2) EXPENDITURES OF DEPOSIT INSURANCE AGENCIES.—Obligations and disbursements of Federal deposit insurance agencies made to forestall more costly insurance claims shall be a means of financing the deficit.

"SEC. 333. CONGRESSIONAL CONTROL OF LOAN COSTS.

"(a) APPROPRIATION REQUIRED.—Notwithstanding any other provision of law, new direct loan obligations may be incurred and new loan guarantee commitments may be made after September 30, 1990, only to the extent that appropriations of new budget authority to cover their costs are made in appropriation Acts enacted after the date of enactment of this title.

"(b) NEW BUDGET AUTHORITY AND GROSS LOAN LEVELS.—Whenever any Act appropriates an amount of new budget authority for fiscal year 1991 or thereafter insufficient to fund the cost of the gross loan level specified in such Act for a particular program, there are hereby appropriated such additional amounts of new budget authority as are necessary to fund the costs of such program.

"(c) EXEMPTION FOR MANDATORY PROGRAMS.—Subsection (a) shall not apply to any loan program that constitutes a spending requirement, such as loan programs administered by the Commodity Credit Corporation, the Guaranteed Student Loan Programs, the Veterans' Administration home loan programs, and Federal deposit insurance programs.

"SEC. 334. EXECUTIVE BRANCH COST ESTIMATES.

"For the executive branch, all estimates required by this subtitle shall be made by the Director of the Office of Management and Budget after consultation with the agencies that administer loan programs (or, if he delegates such authority, by those agencies), and shall be based upon guidelines, regulations, or criteria (consistent with the definitions in this subtitle) established by the Secretary of the Treasury after consultation with the Director of the Office of Management and the Budget and the Director of the Congressional Budget Office.

"SEC. 335. BUDGET PRESENTATION OF COSTS.

"(a) ACTUALS.—For fiscal year 1991 and each ensuing fiscal year, end-of-year loan costs contained in the President's budget shall be revised to the extent that estimates of such costs proved inaccurate when the loan was repaid, prepaid, or finally defaulted.".

"(b) YEARS BEFORE FISCAL YEAR 1991.—The Office of Management and Budget shall, to the extent possible, make summary estimates of loan costs incurred in years before fiscal year 1991 and shall make such information available to supplement or adjust (as appropriate) historical data for such years.

"SEC. 336. EFFECTIVE DATES.

"(a) PRESIDENT'S BUDGET.—This subtitle shall apply to budget estimates for fiscal year 1991 and thereafter presented in the budget submitted by the President under section 1105(a) of title 31, United States Code, for fiscal year 1992 and subsequent fiscal years.

"(b) CONGRESSIONAL BUDGET.—This subtitle shall apply to budget estimates contained in concurrent resolutions on the budget reported after the date of enactment of this title for fiscal years 1991 and thereafter.

SEC. 203. AMENDMENTS TO TITLE IV OF THE CONGRESSIONAL BUDGET ACT OF 1974.

The Congressional Budget Act of 1974 is amended by repealing sections 401, 402, and 404, by redesignating sections 403, 405, 406, and 407 as sections sections 406, 407, 408, and 409, respectively, and by inserting before section 406 (as redesignated) the following new sections:

"SEC. 401. BILLS PROVIDING CONTRACT OR BORROWING AUTHORITY.

"No bill or resolution providing contract authority or borrowing authority shall be reported by any committee other than the Committee on Appropriations of either House. No amendment providing contract authority or borrowing authority shall be in order during consideration of a bill or resolution not reported by the Committee on Appropriations of either House. A question of order on such a provision may be raised at any time. It shall not be in order in the the House of Representatives or the Senate to consider any conference report that provides contract authority or borrowing authority other than a conference report on a bill or resolution reported by the Committee on Appropriations of either House.

"SEC. 402. BILLS PROVIDING CREDIT AUTHORITY.

"No bill or resolution providing the authority to incur direct loan obligations or make loan guarantee commitments shall be reported by any committee other than the Committee on Appropriations of either House. No amendment providing the authority to incur direct loan obligations or make loan guarantee commitments shall be in order during consideration of a bill or resolution not reported by the Committee on Appropriations of either House. A question of order on such a provision may be raised at any time. It shall not be in order in the the House of Representatives or the Senate to consider any conference report that provides the authority to incur direct loan obligations or make loan guarantee commitments other than a conference report on a bill or resolution reported by the Committee on Appropriations of either House.

"SEC. 403. BILLS REDUCING OFFSETTING COLLECTIONS.

"No bill or resolution that reduces offsetting collections credited to an account contained in an appropriation Act shall be reported by any committee other than the Committee on Appropriations of either House. No amendment that reduces offsetting collections credited to an account contained in an appropriation Act shall be in order during consideration of a bill or resolution not reported by the Committee on Appropriations of either House. A question of order on such a provision may be raised at any time. It shall not be in order in the the House of Representatives or the Senate to consider any conference report that reduces offsetting collections credited to an account contained in an appropriation Act other than a conference report on a bill or resolution reported by the Committee on Appropriations of either House.

"SEC. 404. EXCEPTIONS TO CONTROLS ON BACKDOOR SPENDING.

"Section 401, 402, or 403 shall not apply if the authority or collections referred to in such section is derived from or collected into—

"(1) a trust fund, at least 90 percent of whose receipts consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such trust fund exists) received under specified provisions of the Internal Revenue Code of 1986;

"(2) gifts or bequests made to the Government for a specific purpose; or

"(3) any government corporation set forth in section 9101 of title 31, United States Code, as of January 1, 1990.".

SEC. 204. JOINT TAX COMMITTEE ESTIMATES.

(a) Section 201 of the Congressional Budget Act of 1974 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following:

"(f) RELATIONSHIP TO JOINT COMMITTEE ON TAXATION.—For purposes of providing information on legislation affecting income, payroll, excise, estate or gift taxes, the Office shall exclusively use revenue estimates prepared by the Joint Committee on Taxation, if timely received. The joint committee shall prepare such estimates upon the request of the Office, in the following order of priority: legislation reported by committee or conference committee; estimates needed by the Office in preparing its annual report under section 202(f); proposals for the chairman of the Committee on Ways and Means, Finance, or the Budget; proposals for any other member of those committees; and proposals for any other Member of Congress. Estimates prepared by the joint committee shall be consistent with the economic assumptions used in the applicable budget resolution; shall compare legislation or proposals to the baseline used in constructing that budget resolution; and shall cover the current year, the budget year, and each outyear.".

(b) CONFORMING AMENDMENT.—Section 273 of the Balanced Budget and Emergency Deficit Control Act of 1985 is repealed.

SEC. 205. DUTIES OF CONGRESSIONAL BUDGET OFFICE.

Section 202(f)(1) of the Congressional Budget Act of 1974 is amended by adding at the end the following: "Such report shall also include a projection for the period of 5 fiscal years beginning with such fiscal year of (A) total new budget authority and total outlays for each fiscal year in such period; (B) revenues to be received and the major sources thereof, and the surplus or deficit, if any, for each fiscal year in such period; and (C) tax expenditures for each fiscal year in such period.".

SEC. 206. SENATE WAIVERS.

(a) Sections 904 (b) and (c) of the Congressional Budget Act of 1974 are amended to read as follows:

"(b) Any provision of title III or IV may be waived or suspended in the Senate by the unanimous consent of the Senate or by a majority vote of the Members voting, a quorum being present.".

(b) Section 904(d) of the Congressional Budget Act of 1974 is redesignated as 904(c).

(c) Sections 271 (a), (b), and (c) of the Balanced Budget and Emergency Deficit Control Act of 1985 are repealed and in subsection (d) of such section strike "(d) RULEMAKING POWERS.—".

TITLE III—DEBT LEGISLATION

SEC. 301. DEBT LEGISLATION.

(a) Section 302 of the Congressional Budget Act of 1974 (as amended by section 202) is amended by adding at the end the following:

"(g) Conference reports on concurrent resolutions on the budget shall be considered first in the House of Representatives.".

(b) Rule XLIX of the House of Representatives is amended—

(1) in clause 2 by striking "section 301, 304, or 310" and by inserting "section 301 or 304"; and

(2) in clause 1 by striking "adoption by the Congress (under section 301 or 304 of the Congressional Budget Act of 1974) of any concurrent resolution on the budget" and by inserting "passage by the House of Representatives (under section 301 or 304 of the Congressional Budget Act of 1974) of a conference agreement on any concurrent resolution on the budget";

(3) in the last sentence of clause 1 by inserting "at the same time the engrossed copy of the concurrent resolution on the budget is transmitted to the Senate" after "transmitted to the Senate for further legislative action".

(c) The Standing Rules of the Senate are amended by adding at the end the following:

"RULE—

"DEBT LEGISLATION

"Upon passage of a conference report on any concurrent resolution on the budget, the joint resolution changing the statutory limit on the public debt passed by the House of Representatives under rule XLIX of the Rules of the House of Representatives shall be deemed to have been passed by the Senate, and shall be prepared for transmittal to the President under the applicable rules of the Senate and the House of Representatives. The vote by which the conference agreement on the concurrent resolution on the budget was agreed to in the Senate shall be deemed to have been a vote in favor of such joint resolution upon final passage in the Senate.".

TITLE IV—PAY-AS-YOU-GO

Subtitle A—Short Title, Effective Dates, and Definitions

SEC. 401. SHORT TITLE.

This title may be cited as the "Pay-As-You-Go Act of 1990".

SEC. 402. EFFECTIVE DATES.

(a) IN GENERAL.—This title applies to each budget submitted by the President under sections 1105(a) and 1106 of title 31, United States Code, after January 1, 1991, and each budget resolution reported under section 301 or 304 of the Congressional Budget Act of 1974 after the date of enactment of this Act.

(b) FOR THE DEFICIT REDUCTION PERIOD.—All sections of this title are in effect with respect to the deficit reduction period except sections 411(b) and 413(b).

(c) FOR THE BUDGET NEUTRALITY PERIOD.—All sections of this title are in effect with respect to the budget neutrality period except sections 411(a) and 413(a).

SEC. 403. DEFINITIONS.

As used in this title:

(1) Base year.—The term "base year" means the fiscal year that immediately precedes the budget year.

(2) Multiyear period.—The term "multiyear period" means the five-year period comprising the budget year and the outyears.

(3) Baseline.—The term "baseline" means the projection (described in section 410) of base-year levels of new budget authority, outlays, revenues, and the deficit or surplus into the budget year and the outyears.

(4) Budget base.—The term "budget base" means the projection (described in section 411) of base-year levels of new budget authority, outlays, revenues, and the deficit or surplus into the budget year.

(5) Deficit reduction.—The term "deficit reduction" means, with respect to a budget year, the amount by which the deficit for that year (in the President's original budget or midsession review or in the budget resolution for that year) is lower than the baseline deficit for that year.

(6) Multiyear deficit reduction.—The term "multiyear deficit reduction" means, with respect to the five-year period comprising the budget year and the outyears, the total amount by which the deficits for

that period (in the President's original budget or midsession review or in the budget resolution covering that period) are lower than the baseline deficits for that period.

(7) DEFICIT REDUCTION PERIOD.—The term "deficit reduction period" means the period beginning with fiscal year 1991 and ending the last day before the beginning of the budget neutrality period.

(8) BUDGET NEUTRALITY PERIOD.—The term "budget neutrality period" means the period beginning the first day of the fiscal year that starts after the issuance by the Secretary of the Treasury of a report stating that, for the fiscal year completed immediately before its issuance, the budget of the United States was not in deficit, and such period shall remain in effect thereafter.

(9) DIRECT SPENDING.—The term "direct spending" means—

(A) budget authority provided by laws other than appropriation Acts; and

(B) spending requirements, and the food stamp program.

(10) CBO.—The term "CBO" means the Congressional Budget Office.

(11) Other terms.—All other terms used in this title shall have the meanings given to them in section 3 of the Congressional Budget and Impoundment Control Act of 1974.

(12) Explanation.—As used in this title, a surplus may be construed as a negative deficit, so deficit reduction could be an increase in the surplus.

Subtitle B—Spending, Revenues, and the Deficit

SEC. 410. THE BASELINE.

(a) In General.—For any budget year, the baseline refers to a projection of base-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and the outyears based on laws enacted in sessions of Congress ending before the beginning of the budget year.

(b) Revenues and Direct Spending.—For the budget year and each outyear, the baseline shall be calculated using the following assumptions:

(1) In general.—Revenue laws and laws providing or creating direct spending are assumed to operate in the manner specified in those laws for each such year and funding for spending requirements is assumed to be adequate to make all payments required by those laws.

(2) Exception.—No program with estimated base-year outlays greater than $50 million shall be assumed to expire in the budget year or outyears.

(c) Discretionary Appropriations.—For the budget year and each outyear, the baseline shall be calculated using the following assumptions regarding all amounts other than those covered by subsection (b):

(1) Inflation of base-year appropriations.—New budget authority and obligation limitations shall be at the level available in the base year, adjusted for expiring housing contracts as specified in paragraph (2), adjusted for inflation as specified in paragraph (3), and adjusted to account for changes required by law in the level of agency payments for personnel benefits other than pay.

(2) Expiring housing contracts.—For the budget year and for each outyear, base-year new budget authority to renew expiring multiyear subsidized housing contracts shall be adjusted to reflect the number of such contracts that are scheduled to expire in that year with the per-contract renewal cost equal to the average base-year cost of new contracts.

(3) Inflator.—The inflator used in paragraph (1) shall be the percent by which the average of the estimated gross national product implicit price deflator

for a fiscal year differs from the average of such estimated deflator for the base year.

(4) BASE YEAR APPROPRIATIONS.—If, for any account, a continuing appropriation is in effect for less than the entire base year, then the base-year amount shall be assumed to equal the amount that would be available if that continuing appropriation covered the entire fiscal year. If law permits the transfer of budget authority among budget accounts in the base year, the base-year level for an account shall reflect transfers accomplished by the submission of, or assumed for the base year in, the President's original budget for the budget year.

(d) TRANSITION RULE.—In providing budget estimates for budget year 1991, base-year 1990 amounts shall be calculated using the concepts and definitions that are required for that budget year.

SEC. 411. THE BUDGET BASE.

(a) DEFICIT REDUCTION PERIOD.—During the deficit reduction period, the budget base refers to a projection of base-year new budget authority, outlays, revenues, and deficits for the budget year that is the same as the baseline for that year except that—

(1) inflation shall be assumed to be zero for the purpose of projecting the base-year level of discretionary budgetary resources;

(2) inflation (for the 12-month period appropriate for each program) shall be assumed to be zero in calculating benefit increases indexed to prices in direct spending programs that provide retirement or disability payments to individuals, except in the Federal Old Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, which are off-budget by law;

(3) inflation (for the 12-month period appropriate for each program) shall be assumed to be zero in calculating benefit increases indexed to prices in all other direct spending programs;

(4) inflation (for the 12-month period appropriate for each program) as measured by the appropriate indices shall be assumed to be zero in projecting the cost of payments by the Government under the medicare programs under title XVIII of the Social Security Act; and

(5) inflation (for the appropriate 12-month period) shall be assumed to be zero in projecting the cost of payments by the Government under the medicaid program under title XIX of the Social Security Act.

(b) BUDGET NEUTRALITY PERIOD.—During the budget neutrality period, the budget base for a budget year shall be the baseline for that year described in section 410.

SEC. 412. THE BUDGET-YEAR DEFICIT REQUIREMENT.

(a) IN GENERAL.—Except as provided in subsection (b), the deficit for the budget year contained in the President's original budget or midsession review for that year or any budget resolution for that year shall not exceed the deficit in the budget base for that year calculated under section 411.

(b) ADDITIONAL DEFICIT REDUCTION.—For each of fiscal years 1991, 1992, and 1993, the deficit for the budget year contained in the President's original budget or midsession review for that year or any budget resolution for that year shall not exceed the deficit in the budget base for that year calculated under section 411 minus $10 billion.

SEC. 413. MULTIYEAR REQUIREMENTS.

(a) DEFICIT REDUCTION PERIOD.—During the deficit reduction period, the following requirements shall apply:

(1) BUDGET-YEAR DEFICIT REDUCTION.—The amount of deficit reduction required in any budget year is the amount by which the deficit described in section 412 for that year is lower than the baseline deficit for that year.

(2) MULTIYEAR DEFICIT REDUCTION REQUIREMENT.—The required amount of multiyear deficit re-

duction shall be at least 6 times the amount of budget-year deficit reduction required under paragraph (1).

(3) COMPLIANCE WITH REQUIREMENT.—In determining whether any original budget or midsession review submitted by the President or any budget resolution meets the requirement of paragraph (2), the amount of multiyear deficit reduction that is countable shall be the difference between—

(A) the total deficit in the baseline for that multiyear period, and

(B) the total deficit in such budget, midsession review, or budget resolution for that period, calculated as specified in paragraph (4).

(4) METHOD OF CALCULATING MULTIYEAR DEFICITS.—For purposes of paragraph (3), deficits in the multiyear period shall be calculated by—

(A) assuming that budget-year policy and, for direct spending and revenues, outyear policy, is enacted (or otherwise implemented) before October 1 of the budget year;

(B) treating the budget-year estimates based on the assumptions referred to in subparagraph (A) as the new base-year estimates for purposes of subparagraph (C); and

(C) making a baseline projection of those new base-year estimates into the outyears by applying the baseline projection rules in section 410.

(b) BUDGET NEUTRALITY PERIOD.—

(1) MULTIYEAR SURPLUS REQUIREMENT.—During the budget neutrality period, surpluses (or deficits) shall fulfill the requirement that the total surplus (or deficit) over the multiyear period not breach the total surplus (or deficit) for that period in the baseline described in section 410. For purposes of this subsection, the term "to breach" means to have a smaller surplus than or to have a larger deficit than, as applicable.

(2) COMPUTATION OF MULTIYEAR SURPLUSES.—In determining whether any original budget or midsession review submitted by the President or any budget resolution meets the requirement of paragraph (1), multiyear surpluses (or deficits) shall be calculated by the method established in subsections (a)(4)(A), (B), and (C).

(c) OUTYEAR POLICY FOR DISCRETIONARY PROGRAMS.—For any budget year, any original budget or midsession review submitted by the President or any budget resolution may assume, for any account, an outyear level of discretionary new budget authority and obligation limitations different from the baseline projection of those budget year amounts specified in subsection (a)(4)(C) or (b)(2). However, the baseline projection calculated under those subsections shall not be affected by those differences. To the extent that any such differences exist, they shall be identified in detail in the original budget or midsession review or the statement of managers accompanying the conference report on the budget resolution, as the case may be. To the extent that the net of all such differences (over the entire outyear period) is greater than the projected level of such discretionary amounts, the original budget or midsession review or the statement of managers shall identify in detail offsetting reductions in direct spending or increases in revenues that will be proposed in future years and will fully cover the cost of the planned increase in discretionary amounts.

SEC. 414. CONGRESSIONAL USE OF CBO ESTIMATES.

For purposes of sections 412 and 413, Congress shall use baseline and budget base estimates prepared by CBO.

Subtitle C—Enforcement

SEC. 420. THE PRESIDENT'S BUDGET.

(a) Must Meet Deficit Requirements.—The budget transmitted by the President under section 1105(a) of title 31, United States Code (referred to in this title as the "President's original budget"), for a budget year shall be prepared using the best estimates then available, in such a manner as to ensure that the deficits for that year and for the multiyear period do not exceed the deficits allowable under sections 412 and 413, using the definitions and estimating rules contained in this title and in the Congressional Budget and Impoundment Control Act of 1974. The aggregate levels of outlays and revenues shall be set at such levels as the President considers most desirable and feasible.

(b) MUST SPECIFY INCREASES AND OFFSETS.—The President's original budget shall specify each program that is proposed for a spending increase over the level in the budget base and each proposed reduction in revenues below the level in the budget base in the budget year. For such proposals, that budget shall also specify program cuts below the levels in the budget base and tax increases above the levels in the budget base needed to offset the effect on the deficit of those spending increases and revenue reductions in order to fulfill the deficit requirement of section 412.

(c) MIDSESSION REVIEW.—The supplemental summary submitted by the President under section 1106(a) for a budget year (referred to in this title as the "midsession review") shall meet the deficit requirements of sections 412 and 413. The midsession review shall include an updated budget base and an updated multiyear baseline if there have been any changes to either since the original budget for that year was submitted. The midsession review shall incorporate all budget proposals announced by the President or the heads of executive branch agencies, unless explicitly withdrawn, regardless of whether such proposals have been transmitted as formal budget amendments. If the midsession review contains proposed program increases over the level in the budget base or revenues reductions below the level in the budget base that differ from the proposals contained in the President's original budget, the midsession review shall specify program cuts below the levels in the budget base and tax increases above the levels in the budget base needed to offset the effect on the deficit of those spending increases and revenue reductions in order to fulfill the deficit requirement of section 412.

(d) BASELINE PROJECTIONS AND COMPARISONS.—The President's original budget for a budget year shall include a baseline projection of new budget authority, outlays, revenues, and the deficit or surplus, prepared following the definitions and estimating rules contained in section 410, for that year and the outyears. The President's original budget shall state the new budget authority and outlays in the baseline by function, subfunction, and major programs within each subfunction, and shall state the total amount of revenues. The President's original budget shall compare such amounts with amounts proposed in the budget for each of those years, explaining the nature of the major differences between the budget and the baseline for each year and the policy justification for each such change.

(e) BUDGET BASE PROJECTIONS AND COMPARISONS.—The President's original budget for a budget year shall include a budget base projection for that year of new budget authority, outlays, revenues, and the deficit or surplus, prepared following the definitions and estimating rules contained in section 411. The President's original budget shall state the new budget authority and outlays in the budget base by function, subfunction, and major programs within each subfunction, and shall state the total amount of revenues. The President's original budget shall compare such amounts with amounts proposed in the budget and projected in the baseline for that year, explaining the nature of the major differences between the budget, the budget base, and the baseline for that year and the policy justification for each such change.

(f) CONSISTENCY OF ESTIMATES.—The President shall use the same economic and technical estimating assumptions used in preparing the original budget when preparing the midsession review, the baseline projection, and the budget base projection (except that the zero-inflation rule specified in section 411 shall apply to the budget base projection).

(g) CONFORMING AMENDMENTS.—Sections 1103 and 1109 of title 31, United States Code, are repealed.

SEC. 421. THE BUDGET RESOLUTION.

(a) Point of Order.—It shall not be in order in the House of Representatives or the Senate to consider a budget resolution, or an amendment thereto or a conference report thereon, if its adoption would result in a deficit for the budget year or for the multiyear period that violates the requirements established in section 412 or 413.

(b) Estimates of Deficit Reduction.—The amount of deficit reduction provided by a budget resolution shall be determined on the basis of estimates made by the Committee on the Budget of the Senate or the House of Representatives, as the case may be, after consultation with CBO.

SEC. 422. CONGRESSIONAL USE OF CBO ESTIMATES.

(a) Point of Order.—It shall not be in order in the House of Representatives or the Senate to consider a budget resolution for a budget year, or an amendment thereto or a conference report thereon, if it is not prepared on the basis of economic assumptions published by CBO in its annual report under section 202(f) of the Congressional Budget Act of 1974 and on the basis of technical assumptions consistent with those used by CBO.

(b) Determination by the Committees on the Budget.—Determinations under subsection (a) shall be based on information provided by the Committee on the

Budget of the appropriate House, after consultation with CBO.

TITLE V—CONFORMING AMENDMENTS

SEC. 501. CONFORMING AMENDMENTS TO PRESIDENTIAL BUDGET REQUIREMENTS.

(a) COMPARABLE DEFINITIONS AND TREATMENTS.—Section 1101 of title 31, United States Code, is amended by adding at the end the following new paragraphs—

"(3) other terms used herein, and all terms used in any budget submitted under section 1105(a) or 1106 shall have the meanings set forth in section 3 of the Congressional Budget and Impoundment Control Act of 1974.

"(4) estimates used in any budget submitted under sections 1105(a) or 1106 shall follow the scorekeeping guidelines and rules specified in the Congressional Budget Act of 1974.".

(b) COMPARABLE YEAR-TO-YEAR FIGURES.—For any budget year, the Director of the Office of Management and Budget shall, to the extent possible, conform budget data for years prior to the budget year 1991 to the definitions, treatments, and estimating rules applicable under this Act and the amendments made by this Act to that budget year.

(c) SUBMISSION DATE.—Section 1105(a) of title 31, United States Code, is amended by striking "first Monday after January 3" and by inserting "second Monday after January 3".

SEC. 502. CONFORMING AMENDMENTS TO HOUSE AND SENATE RULES REGARDING BACKDOOR SPENDING.

(a) NEW SPENDING AUTHORITY.—Clause 1(b)(4) of rule X of the House of Representatives is repealed.

(b) REFERRAL OF NEW SPENDING AUTHORITY.—Clause 4(a)(2) of rule X of the House of Representatives is repealed and clause 4(a)(3) is renumbered accordingly.

(c) Paragraphs 1(b)(3) and 1(b)(4) of rule XXV of the Standing Rules of the Senate are repealed.

SEC. 503. CONFORMING AMENDMENT TO HOUSE RULES REGARDING MULTIYEAR REVENUE ESTIMATES.

Clause 7(a)(1) of rule XIII of the House of Representatives is amended by striking ", except that, in the case of measures affecting the revenues, such reports shall require only an estimate of the gain or loss in revenues for a one-year period".

SEC. 504. CONFORMING AMENDMENT TO HOUSE RULES REGARDING CONGRESSIONAL RESPONSE TO PRESIDENTIAL ORDER.

Clause 1(e)(2) of rule X of the House of Representatives is amended by striking "Act, and any resolution pursuant to section 254(b) of the Balanced Budget and Emergency Deficit Control Act of 1985" and inserting "Act".

SEC. 505. CONFORMING AMENDMENTS TO HOUSE RULES REGARDING RECONCILIATION.

Rule X of the House of Representatives is amended—

(1) in clause 4(b)(3) by striking "and resolutions"; and

(2) in clause 4(i) by striking "laws, bills, or resolutions" and inserting "laws" and by striking "or resolution (or both)".

SEC. 506. CONFORMING AMENDMENT TO HOUSE RULES REGARDING SUBALLOCATIONS.

Clause 4(h) of rule X of the House of Representatives is amended by striking "each standing committee of the House (after consulting with the appropriate committee or committees of the Senate) shall subdivide any allocations" and inserting "the Committee on Appropriations (after consulting with the Committee on Appropriations of the Senate) shall subdivide the allocations" and by striking "section 302" and inserting "section 311".

SEC. 507. CONFORMING AMENDMENTS TO HOUSE RULES, SENATE RULES, AND THE CONGRESSIONAL BUDGET ACT OF 1974 REGARDING DEFINITIONS.

(a) Clause 1(e)(2) of rule X of the Rules of the House of Representatives is amended by striking "(a)(4)".

(b) Paragraph 1(e)(1) of rule XXV of the Standing Rules of the Senate is amended by striking "(a)(4)".

(c) Section 202(a)(1) and the second sentence of 202(f)(1) of the Congressional Budget Act of 1974 are amended by striking "budget authority" and inserting "new budget authority" .

(d) Clause 4(a)(2) of rule X of the House of Representatives (as renumbered) is amended by striking "spending authority" and inserting "spending requirements".

(e) Clause 2(l)(3)(B) of rule XI of the House of Representatives is amended to read as follows: "(B) the statement required by section 323(a)(1) of the Congressional Budget Act of 1974;"

(f) Clause 2(l)(3)(C) of rule XI of the House of Representatives is amended to read as follows: "(C) the estimate and comparison prepared by the Director of the Congressional Budget Office under section 406; and".

SEC. 508. CONFORMING AMENDMENT TO THE CONGRESSIONAL BUDGET ACT OF 1974 TABLE OF CONTENTS.

Section 1(b) of the Congressional Budget Act of 1974 is amended to reflect the new section numbers and headings created by this title.

SEC. 509. CONFORMING AMENDMENT TO PUBLIC LAW 100-119 REGARDING TIMING SHIFTS.

Section 202 of Public Law 100–119 is repealed.

Chairman **Derrick**. We are pleased to have joining us, although he is not a member of the subcommittee, the Honorable Gerald Solomon from the State of New York who advises me he was reared in the South. You learn new things every day and we are delighted to have three other members of the subcommittee with us.

Mr. Wheat, do you have an opening statement you wish to make?

Mr. **Wheat**. I have no opening statement. I appreciate your calling these hearings. It shows the various jurisdictions of these matters, and we look forward to hearing from the witnesses.

Chairman **Derrick**. Mr. Pashayan?

Mr. **Pashayan**. I am looking forward to seeing how these hearings develop. The subject matter is of the keenest interest, so we shall see how the witness' testimony unfolds and then determine what we should do.

Chairman **Derrick**. Mr. Gordon?

Mr. **Gordon**. This is a serious matter and I appreciate Leon taking on the leadership.

Chairman **Derrick**. We will now hear from the chairman of the Budget Committee, Mr. Panetta. You may testify as you like. We suggest you might want to summarize.

Mr. **Panetta**. That is what I intend to do. I prefer to summarize.

Mr. Chairman, I would ask that my statement be made part of the record and any attachments that we would have be made part of the record. I know there are some additional legislative histories the staff would like to incorporate. I would like to ask permission to be able to include those in the record.

Chairman **Derrick**. Without objection, it is so ordered.

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Panetta**. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you.

I appreciate the fact that the subcommittee is looking at the issue of budget process reform. It is essential that you try to look at all of the various proposals that will be out there. I think we need to be ahead of the game and try to analyze what the impact is going to be in implementing any kind of budget reform. I think we are going to see it whether we like it or not, because the likelihood is that either body right now is likely to move on the social security issue. When you move to take social security off the Gramm-Rudman calculation, it sets off a set of dominoes that you have to then consider because, once you take social security off the Gramm-Rudman calculation, it automatically adds to the size of the deficit, makes it almost impossible to reach the Gramm-Rudman target of a balanced budget in 2 years and then sets off the additional domino of what do you do with Gramm-Rudman. Do you extend it out? Do you revise the targets? How do you respond to the process requirements that are going to be forced on the institution if it should take the step of taking social security off the Gramm-Rudman calculation, something that I think is very likely to happen in this session of the Congress.

Second, I think it is very important because we are at a point now where we really do have to consider budget process reforms. Gramm-Rudman for all of its, I think, good intentions and, indeed, Gramm-Rudman has helped in terms of the discipline in the institution, but we have now reached a point where it has become part of the problem rather than part of the solution. By that, I mean that there are several very real problems that we see with Gramm-Rudman in the way it is currently implemented.

The first problem is that it almost automatically provides an incentive for optimistic economic assumptions because, basically, OMB establishes where the baseline is to be. The more optimistic they are about where the economy is going, the more they can reduce the deficit without having to cut anything or raise taxes or deal with the hard choices. You can just be happy about where the economy is going. It is not true for just this administration but it has been true for Democrats and Republicans alike.

This year you have the administration predicting interest rates in fiscal year 1991 of 4.2 percent for 3-month Treasury bills. There is nobody who thinks we are going to see interest rates at that level in 1991 and the likelihood is they are going up. There is no forecaster who is predicting 4.2 percent enter rates on 3-month Treasury bills.

The problem is this: Every point you are off on the projections, it adds about $12 billion to the deficit but, at the same time, it is very difficult for us to respond and say let's use CBO's more realistic numbers. The problem is now that the gap between OMB and CBO is growing so large that you are talking about what would be an almost impossible task if you use CBO's number. For example, CBO says the deficit is approaching $160 billion. If you take the RTC out of it, it is probably somewhere in the $140 billion area. So, if we were to get the $64 billion, you are talking about $90 billion-plus we would have to reduce the deficit budget for 1991, which most economists would probably say is not wise to do in terms of the economy.

Second, it would be impossible to do in terms of getting the institution to respond with $36 billion in deficit reduction much less ratchet that up to $190 billion. So it produces very unpredictable and very wrong consequences in terms of the assumptions that we have to use for the future.

Second, and most importantly, it has produced an almost 1-year myopia with regard to Gramm-Rudman. We focus on August 15 and October 15 and we don't give a damn about multiyear deficit reduction. The whole gain does get by a certain date so we can avoid sequestration. The result is producing the most wonderful gimmicks you have ever seen. Probably the most notable example of that is the shift in defense spending where they were to pay civil service personnel and military on the first of each month, and they moved it back from October 1 to September 1 of the old fiscal year, loosening up $3 billion they could spend in the new year while adding it to the deficit in the prior year. It does not produce anything in the terms of deficit savings or multiyear savings but it does a hell of a lot when you are dealing with Gramm-Rudman to shift you from one fiscal year to the next to give you a little more money to spend in the next year. We see it with regard to expediting payments for example on the payroll tax. The administration has a number of proposals in their budget to accelerate the medicare tax payment, all of which do not produce more in savings. They basically just accelerate payments so you can calculate them in one month as opposed to another.

All of that is just producing horrendous results. If you look at Gramm-Rudman over the period of its lifetime, instead of producing the roughly $36 billion in deficit reduction that was supposed to be produced, the analysis now is only $10 billion in real deficit reduction has been achieved each year. So you have $10 billion in real deficit reduction and you are looking at $26 billion in smoking mirrors that generally accompanies it through shifts or accelerated payments or simply moving dates around.

That is a real problem. That has got to stop. It is not good budgeting, and yet the very incentive behind achieving the Gramm-Rudman targets are basically to play that type of game.

Third, the budget definitions and points of orders that are involved with Gramm-Rudman lead to some of the most absurd results that you can imagine. We see it, for example, in the Social Security Reform Bill, to cite some examples.

One, in the Social Security Reform Bill, that bill was the result of the Social Security Administration's recommendations. It proposed cutting benefits and raising revenues. In doing that, raising the revenues, under the rulings, it also automatically increased budget authority and, therefore, was subject to a point of order under the rules so you basically had a point of order under the Budget Act for something that literally cut spending and raised revenues, which doesn't make any sense, but that is the way the rulings were interpreted.

We have had similar situations with regard to other proposals I cite in my testimony and I recommend you look at that. Unfortunately, you as the Rules Committee have to wind up with this kind of situation on your lap and decide if you have to provide a waiver to cure what is an absurd reason.

For all of those reasons, I have put together a proposal that builds on a number of proposals that have been around that require pay-as-you-go on budgeting. That is basically the heart and soul of H.R. 3929. What I do is not simply to extend the status quo. I think if all we wind up doing is extending Gramm-Rudman for another 5 or 6 years without curing the problems that I talked about, we are doing a gross injustice to the institution and to the whole process of trying to achieve responsible deficit reduction. I know that is a temptation. We are all familiar with the kind of games that are played and it is always a little more comfortable for us to extend current law. It would be wrong. If we fall into that trap, I think we are really creating some very real problems for the future. The reason I presented H.R. 3929, I think we have to look at things differently in how we approach deficit reduction in the future. What I try to do here is to basically say that we should calculate our deficit reduction based on last year's expenditures levels. In other words, what we spent last year becomes the baseline. Anything above that baseline in terms of inflation, increases, in terms of new initiatives, in terms of new spending proposals would have to be paid for either through new taxes or old taxes retargeted or through spending reductions. That would be incorporated in the budget resolution. In other words, we would use that baseline and then anything above that baseline would have to be paid for within the budget resolution so that in effect we try to maintain that baseline as our base for the future. That produces roughly $28 billion in deficit reduction.

The chart over here kind of summarizes that path of deficit reduction you would see under this proposal. It is roughly $28 billion between 1991, 1992 and 1993. Then it goes to $18 billion, roughly, through 1998 when we would reach a balanced budget.

Social security would not be included here and it is not that there is anything in the bill that states that. Right now under social security, social security is off-budget. The only reason it is on budget is we use it in the calculations on Gramm-Rudman. Since I would end Gramm-Rudman, I don't deal with having to count the social security surplus. That would be off and we would not use that in terms of calculating the deficit that would have to be achieved.

We also require that what is achieved in deficit reduction has to produce multiyear savings so there is a 5-year deficit requirement, reduction requirement that is built in here that requires that you achieve roughly about 120 percent of the required budget year deficit reduction. You have to achieve that over the 5-year period, so you are not talking about just savings the first year, but you are talking about savings that have to be achieved over a 5-year period. As I said it would achieve a balanced budget by roughly 1998, which is our goal, and then it can continue in place.

I think the beauty of what we are proposing here is not something that you turn off and on. It is not like Gramm-Rudman where you suddenly reach a certain date and it disappears. The process I built here is a permanent process. Once you reach a balanced budget, then the requirement each year would be to maintain a balanced budget based on that baseline I just talked about in terms of current spending. So it provides the incentive in terms of being a more permanent approach to dealing with budget process changes.

Last, it also simplifies budget scorekeeping and we use CBO. We do not allow OMB to set our assumption base. We basically use the Congressional Budget Office. They have always been much more effective and realistic in terms of their projections and much more reliable in terms of the Congress in terms of developing our deficit reduction. We do not use the sequestration process. We get rid of the sequestration process and use new points of order that are established as an enforcement tool under this process. I think the responsibility has to rest with the Congress, not with some kind of arbitrary tool that says if you don't do what you are supposed to do, we are going to slam everything across the board. I recognize the reasons for that law having come into place because we were trying to butt a gun at the head of the President as well as the Congress. Unfortunately, that gun is losing a lot of its ammunition. Last year was a good example of that where we simply, when we reached the deadline, used a mini sequestration, if you will, in order to try to get past our goals on reconciliation.

In addition, the defense number now because it is going to be dramatically dropping, I think, no longer will you see defense being a major incentive here to drive action, because defense is going to be reducing over the next 5 years, probably in significant amounts so that sequestration loses much of its bite.

Briefly those are some of the provisions that we have provided here. I think the last thing I would mention is that we eliminate any of the gimmicks that have been used. We specifically prohibit the use of pay shifts. We specifically prohibit the use of other accounting rules and definitions that have resulted in the kind of smoked mirrors I discussed, and we also refused to score asset sales as part of the deficit reduction. So we think above all that this is an honest way to approach the budget. It requires pay-as-you-go which I think we need to force people to look at for the future. You can't simply provide initiatives without providing some way to pay for them. If we are going to continue that game, we will continue to have deficit problems.

Third, it puts the burden on the institution to respond to effective deficit reduction. It doesn't put it on some kind of arbitrary mechanisms nor lay it on the laps of management and budget. It gives that requirement and responsibility to the Congress.

Last, I think it provides a legitimate process for budgeting, which is something we desperately need.

Let me conclude by saying, as I think the chairman has pointed out, there is not a process change in the world that can produce the courage and guts you need to make the right decisions on reductions. The fact is you would not have to do anything about reductions if we had strong leadership and were willing to make strong choices before us. The reality of what has happened today is the process we have which leads to ignoring or avoiding the tough choices. That is the problem. Gramm-Rudman right now helps those who want to bypass these decisions, because it basically allows us to gameplan these issues year to year. So we have now reached the point where the process we have actually undermines our ability to achieve deficit reduction.

So, while I recognize that guts and courage are still a very much important part of deficit reduction, I also recognize that we have to clean up this budget process situation or it is going to continue to undermine our will to confront the deficit issue.

So, for all of those reasons, I urge you to look at the bill we have presented here in H.R. 3929. I am sure there are others that will be testifying on it. Please evaluate it. Please do this carefully. I am not saying we should slam dunk any process changes. We learned the mistakes you make when you try to slam dunk process change when we did Gramm-Rudman. Be careful about this. I think we have some time. It does not have to happen in the next 2, 3 or 6 months. I think it is something we have the time to carefully consider. When we put something new in place, it ought to be something we trust and it is honest with the American people.

[Mr. Panetta's prepared statement follows:]

Prepared Statement of Hon. Leon Panetta, a Representative in Congress From the State of California

Mr. Chairman, members of the committee, I am very pleased to appear before you today in support of H.R. 3929, the Budget Process Reform Act of 1990.

I want to thank you for scheduling this hearing in such a timely manner. I think it is very important for two reasons that the House undertake a detailed and comprehensive review of the budget process early in this session. First, whether we like it or not we are likely to have the issue of budget process reform thrust upon us if either body acts on the status of social security and/or the extension of Gramm-Rudman. When that happens, it will be useful if a clear House position has been established, or at least if much of the work necessary to establish a sound position has already been done. Second, and more important, I believe we border on a breakdown of the ability of the budget process to assure meaningful deficit reduction. Gramm-Rudman, for all of its good intentions, is now part of the problem rather than part of the solution.

Before I describe what I think is wrong with the process and what can be done to improve it, I want to make it clear that I do not think that process changes are a panacea that will cure all our fiscal ailments. No process can substitute for the political will to actually reduce our deficits. But a myopic and convoluted process like the one we have now makes it harder to develop and direct political will toward a solution of our problems. A more honest, properly focused, and simplified process could help to make clear what the true fiscal situation is, facilitate decisions to change the long-term budget path, place responsibility for action on those who can move us toward our goals, and allow us to judge whether budget participants actually meet their responsibilities.

Let me give you some examples of what is wrong with the current system.

First, Gramm-Rudman does not just present us with political incentives to be dishonest—it actually forces us to be irresponsible in one way or another. Every year when we begin to mark up the budget resolution, one of the first things we have to do is to agree to economic and technical assumptions. The choice is almost always between rosy OMB assumptions and less optimistic but more realistic CBO estimates that produce higher deficit estimates. As you can imagine, there is strong political pressure to adopt the assumptions that produce lower deficit estimates and reduce the amount of painful deficit reduction that is required. There is also the problem that the use of more realistic CBO assumptions in the budget resolution would lead to confusion since the Gramm-Rudman deficit and sequestration calculations are made by OMB based on administration assumptions. But, there has almost always been a proposal in the committee that we should do the responsible thing and use the economic and technical assumptions that we believe are more realistic. Such proposals have not prevailed in recent years, but at least there has been an argument for being responsible and honest.

This year, however, I am convinced that using realistic assumptions may not only be politically difficult, it could lead to policies that would be irresponsible. CBO estimates the baseline deficit for fiscal year 1991 is $161 billion, compared with the OMB baseline estimate of $101 billion. Since the Gramm-Rudman deficit target for fiscal year 1991 is $64 billion, if we used the CBO assumptions the budget resolution would be required to propose fiscal year 1991 deficit reduction of $97 billion. Economists are divided on how much deficit reduction would be appropriate this year, but there is a clear consensus that reducing the deficit by as much as $97 billion could push us into a recession.

As you can see, the use of realistic estimates could lead to unacceptable results. There is something fundamentally wrong with a process that requires you to use phony assumptions in order to avoid disastrous results for the economy. The only way to fix this is to repeal Gramm-Rudman. Simply adjusting the targets doesn't work. We adjusted the targets back in 1987, but we were overly optimistic about the economy and we had no idea of the effect the thrift crisis and other developments would have on Government spending, and now we have a deficit target that should not be achieved if we are using realistic assumptions. That is the inevitable result of writing fixed deficit targets into law.

Let me just add that the effects of phony economic and technical assumptions go beyond merely ending up with an inaccurate estimate of the deficit. It is very difficult to start off with dishonest assumptions as the basis for a budget and then force the rest of the process to be scrupulously honest. That first dishonest step may seem small, but it is a step onto an extremely slippery slope.

Second, Gramm-Rudman is myopic in focusing almost entirely on the budget-year deficit at the expense of long-run policy. All attention is on hitting the Gramm-

Rudman target, which is a target only for the budget year, in order to avoid sequestration. This leads to the use of gimmicks like shifting by 3 days the issuance of military pay checks in order to claim an apparent savings of $2.9 billion. Such gimmicks have no real fiscal effect, but are harmful because they substitute for real, permanent deficit reduction. They are also harmful because they undermine the credibility of the whole process. It is hard to tell a committee chairman that his deficit reduction provision is not acceptable because it does not produce real deficit reduction when gimmicks like pay date shifts have been used by the administration or by other committees and have been counted toward the budget targets.

But the 1-year myopia of Gramm-Rudman is even more harmful because it encourages actions that actually make the deficit worse in the long run. For instance, the President has proposed the auction of a long-term lease of the naval petroleum reserves. According to CBO, this could increase fiscal year 1991 receipts by $1 billion, but since the annual payments we are currently receiving for the NPR would be reduced, this lease would increase the deficit by over $300 million a year by fiscal year 1994. It does not help the economy one bit to reduce the 1990 deficit if the necessary result of that reduction is an increase deficit in the outyears. What is important is the path of the long-term deficit. Over the long run is the Federal Government beginning to reduce the drain the deficits have imposed on net national savings?

Third, the current budget act definitions and points of order sometimes lead to situations in which legislation that does not comply with the budget resolution slips through some loophole in the act, and legislation that does not cause any budget problems is nonetheless subject to a budget act point of order. As hard as we try, this makes it difficult to enforce the budget in manner that is accepted as fair, consistent and reasonable. I will not subject you to a lecture on the technical intricacies of budget scorekeeping and enforcement, but let me give you two examples of the kinds of problems that arise.

The first example is the social security reform bill that was enacted in 1983. That legislation, which grew out of the recommendations of the bipartisan Social Security Commission, cut spending and raised revenues in all years. Under the current Budget Act definitions, however, Social Security Budget authority is equivalent to revenues flowing into the trust fund. Therefore, the increase in revenues provided by the bill also increased budget authority and caused the bill to exceed the limit on budget authority set by the budget resolution, and a budget act waiver was required.

The second example is from last year. An amendment to the HUD-independent agencies appropriation bill, reported from conference in disagreement, increased the dollar ceiling on the value of an individual mortgage that can be guaranteed by the FHA. This amendment increased the total amount of new loan guarantees that would be made by FHA in fiscal year 1990 and increased the amount of offsetting collections (scored as negative budget authority and outlays) that would be received by FHA as origination fees. The increase in the FHA guarantees caused the subcommittee to exceed its allocation of loan guarantee authority, so the amendment was subject to a point of order. However, if the amendment was stricken on a point of order, the reduced level of loan guarantees would reduce the amount of origination fees received by FHA and would cause the subcommittee to exceed its budget authority allocation. Exercising a point of order to enforce one allocation would automatically cause another allocation to be exceeded. The subcommittee was caught in a catch-22.

Something is clearly wrong with a system that says a social security bill that cuts spending and raises revenues is a budget buster and that sets up a situation on the FHA amendment where any attempt to cure one budget act violation creates another violation. Of course, the Rules Committee can provide Budget Act waivers in such situations, but I do not need to tell you that is not a satisfactory solution. Once we start waiving the Budget Act for bills like these it becomes much harder to deny waivers in other cases, even those cases where there is a real violation of the budget. It is also hard to convince a committee chairman that his committee should work hard to avoid violating the budget act when he sees that you can do your work responsibly and still run afoul of budget act points of order. And it is no surprise that members begin to doubt the effectiveness of the budget act when they witness the spectacle of Budget Act violations that cannot be cured.

It is not always clear to committees, the membership at large, and sometimes even budget committee scorekeepers, whether or not a bill or amendment actually complies with the budget resolution. Because there are situations where there is uncertainty or there is a violation of the budget act that is purely technical, it becomes more difficult to enforce points of order even against legislation that clearly is at odds with the budget resolution.

I could go on and on detailing the problems we face in the current budget process, but I believe I have said enough about that. Now I want to talk about my bill and how it addresses the problems I have described. You have been given a detailed description of my bill (which I ask be made part of the record), so I will not go through that here. Instead let me just summarize it.

H.R. 3929 repeals the Gramm-Rudman fixed deficit targets and the sequestration process. It replaces the fixed deficit targets with deficit reduction targets that are determined each year by a pay-as-you-go formula. That formula essentially calculates how much savings would be achieved from a traditional baseline in the budget year if Federal spending programs were not increased to offset the effects of inflation. That amount of savings (plus an additional $10 billion in the first three budget cycles) then becomes the target for budget year deficit reduction in the budget resolution. CBO has estimated that the formula (including the $10 billion add-on) would require approximately $28 billion in fiscal year 1991 deficit reduction. In addition, the budget resolution is required to achieve 5-year-deficit reduction (the budget year and four outyears) averaging 120 percent of the required budget year deficit reduction. That means that legislation enacted during the fiscal year 1991 budget cycle would have to produce 5-year savings of $168 billion. Similar deficit reduction amounts would have to be achieved in each of the next two budget cycles, and smaller amounts thereafter until the non-social security budget has been balanced. Under current CBO economic assumptions that should happen in 1998. After that, the pay-as-you-go formula would require that any increases in spending above the traditional baseline be paid for by offsetting spending cuts or revenue increases. In other words, once we reach a surplus, we would be required to maintain it.

(Let me mention at this point that H.R. 3929 would have the effect of moving Social Security entirely off-budget even though it does not mention Social Security. Social Security is currently off-budget except for purposes of Gramm-Rudman calculations. Since H.R. 3929 repeals the Gramm-Rudman calculations without changing current law regarding social security's off-budget status, social security would be left out of budget and deficit calculations entirely. That means, of course, that when a balanced budget is achieved as required by pay-as-you-go, the total Federal budget including Social Security would be in surplus by the amount of the social security surplus for the year. This means that the Social Security surplus will go directly toward national savings, which is a desirable result.)

This version of pay-as-you-go does not impose any restrictions on how the budget resolution is to reach the required deficit reduction or on subsequent budgetary legislation. The pay-as-you-go formula is merely used to determine the amount of deficit reduction required. It does not require that savings actually be achieved by withholding inflation adjustments. Nor does pay-as-you-go require that individual bills be deficit-neutral; it does require that the bills conform to the budget resolution.

The pay-as-you-go deficit reduction, as embodied in the budget resolution, is enforced through a simplified and strengthened Budget Act. H.R. 3929 amends definitions, simplifies budget scorekeeping, and streamlines the points of order in the Budget Act. It also extends Budget Act controls to cover a 6-year period (the current year, the budget year, and four outyears) and requires 5-year reconciliation directives for all assumed revenue and entitlement savings. H.R. 3929 also provides for reform of the way that Federal credit activities are scored and controlled.

So how does H.R. 3929 respond to the problems with the current process that I outlined earlier?

The repeal of the Gramm-Rudman fixed deficit targets will allow us to use more realistic economic assumptions. Since pay-as-you-go requires a certain amount of deficit reduction from the baseline, whatever the baseline deficit estimate is, the estimate of the level of the deficit does not affect the amount of deficit reduction required. There is no need to use rosy economic and technical assumptions to reduce the level of the deficit. Of course, there is always a temptation to use optimistic assumptions so that we can tell the public that the deficit is low. But since the level of the baseline deficit no longer determines the amount of deficit reduction required, H.R. 3929 mandates that the budget resolution be based on CBO economic and technical assumptions. Of course, we cannot force the President to use CBO assumptions, so he may gain some political advantage by being able to pretend his budget deficit is smaller. But, even if the President starts with lower baseline, he will still have to propose the same amount of deficit reduction that we do.

H.R. 3929 also makes the budget process more honest by prohibiting the use of gimmicks such as asset sales and timing shifts to help achieve the required deficit reduction. Only provisions that have a real fiscal impact will count as deficit reduction.

H.R. 3929 addresses the myopia of the current system in two ways. First, by repealing the Gramm-Rudman 1-year targets enforced by sequestration, it eliminates the overwhelming pressure to focus on the budget-year deficit without regard to current-year or outyear deficits. This is absolutely necessary. So long as the Gramm-Rudman process exists, avoiding sequestration will be virtually the only criterion that is used in judging the Presidential and congressional budgets, and those budgets will continue to shortchange long-run deficit reduction and sound policymaking.

Second, H.R. 3929 establishes a true multi-year budget process. The pay-as-you-go formula requires the budget resolution to meet a budget year deficit reduction target and a 5-year deficit reduction target that can only be met if deficit reduction legislation provides savings that increase in the outyears. Reconciliation directives must be for 5 years for all assumed revenue and entitlement savings. Except for the annual appropriations bills, spending allocations and spending and revenue points of order are all for 5 years (controls are actually for six, since they also apply to the current year as well as the budget year and four outyears). This changes the focus of the budget to the long run and precludes the use of gimmicks with short-run savings and long-run costs. It also would force Congress to consider the long-run costs of new initiatives. The current system allows us to enact new programs that start off small and then increase dramatically in cost without worrying about how those outyear costs are going to be paid for.

H.R. 3929 reduces the convolutions of the budget process by clarifying definitions and streamlining controls. For instance, a bill like the 1983 Social Security Reform Act would no longer be subject to a point of order because income into the social security trust fund would no longer be considered budget authority. Budget authority would be redefined so that it actually reflects obligations that the government incurs. We also would avoid situations like that involving the FHA amendment last year because credit reform would provide for scoring credit provisions on a basis consistent with other spending programs. This allows us to eliminate separate points of order enforcing direct loan and loan guarantee limits while actually increasing control over total government costs. At the same time, it would allow the appropriations process to make equal-cost trade-offs among grants, loans, and loan guarantees. Right now, with three separate targets to meet simultaneously, the appropriations committee is in a straightjacket and cannot make trade-offs.

There are also numerous other changes in definitions and enforcement. These clarifications and simplifications are absolutely critical. We need to have a simple, understandable system so that it is clear what needs to be done to conform to the budget resolution and it is clear when actions are taken that do not conform. Of course Congress may decide that some special circumstances, such as the need for emergency disaster relief funds last year, call for actions that do not conform to the budget resolution. But I believe we will actually have very few cases like that and will end up achieving more deficit reduction than we currently do under a system that seems to have all sorts of controls (including sequestration), but is not always enforceable. The system that would be created by H.R. 3929 may look less strict because it has fewer points of order and repeals sequestration. But because it requires honesty and takes away gimmicks, and because it simplifies the system so that it is obvious when Congress deviates from the budget plan it has adopted, I believe it is in fact a more effective system of control. It allows Congress to agree to a rational plan to cut the deficit by the amount required by pay-as-you-go, and then it makes it easy to determine whether Congress actually lives by that plan.

This puts a heavy burden on Congress. We will no longer be able to avoid our responsibility to implement our budget resolution because we can no longer hide behind the confusion of the existing system and can no longer depend on the President to use phony assumptions to claim that the Gramm-Rudman target has been met. Some will argue that Congress will still find ways to achieve less deficit reduction than pay-as-you-go calls for. I think people may be surprised what Congress will do when it is presented with a clear task and clear responsibility. Even if we do achieve less in deficit reduction than pay-as-you-go calls for, however, I am confident that we would do better than we are doing under Gramm-Rudman. Gramm-Rudman supposedly requires deficit reduction of nearly $36 billion a year, but in fact, according to CBO, we have achieved an average of only $10 billion a year in deficit reduction since Gramm-Rudman was enacted. I think it is time to give Congress the tools and the opportunity to do better than that.

Let me say that I do believe we are in a critical period because of the high deficits we have been running. The need to eliminate the deficit and increase net national saving does require a particular focus on the deficit right now.

However, the need to pay special attention to eliminating the deficit should not make us forget that budgets are also supposed to allow us to set priorities and respond to national needs. While H.R. 3929 does force us to focus on deficit reduction, it also provides Congress with the tools to provide for the real needs of this Nation in a responsible fashion.

Chairman DERRICK. Thank you, Mr. Panetta, for your excellent testimony. I at least one time had the distinction of serving on the Budget Committee longer than any other Democrat. I don't know that it is that much of a distinction, but it is a fact. When I first went on in 1975, I was very, very encouraged about what the committee could do. As you know, if you go back and read the testimony and if you read the floor debate, there was great hope that the Budget Act in 1974 was going to balance the budget.

Then we came along and revised it at least one time I can think of and maybe more times that I can't remember. There was a major revision about 2 or 3 years ago.

Mr. PANETTA. When we did Gramm-Rudman, we revised it.

Chairman DERRICK. We have Gramm-Rudman. We have mentioned a lot and can go into all that. It makes good copy but someone has to say no or someone has to raise taxes. Why not do away with the budget process? As you well know, there are a number of people in this town that think it would be a good idea, at least one or two I can think of substantial consequence in this body. Are we just spinning our wheels for nothing?

Mr. PANETTA. No, I think you have to have the discipline of some kind of budget process that looks at the big picture.

Chairman DERRICK. Has it been a discipline?

Mr. PANETTA. I think it has. I would hate to think what would happen without the budget process. I think the problem at the time was there was a recognition that Appropriations had the job in the past of trying to exercise some discipline. When it came to spending, Appropriations became kind of captured by the constituencies of the authorizing committee which had in part been captured, too, and, as a result, you never were able to put together a budget as to where the Congress wound up until the end of the year. At that point, sometimes it was too late.

I think you do need an approach that looks at the larger picture, tells you what kind of revenues you are looking at, what your initiatives ought to be and begins to set some priorities. That is really what the budget does. It is not just a numbers game. It is the vehicle we use to set priorities for the country. I think it is extremely important for us to focus in on the macro picture, if you will, on that responsibility. If you simply do away with that and let the President present his budget and let it be absorbed throughout the appropriations process and budget process, I think we have not only failed to address the big picture but we will not have any spending restraints.

Chairman DERRICK. If we were to adopt your budget this afternoon and the House were to pass it, under your bill where would it put the deficit, close to $200 billion realistically?

Mr. PANETTA. With social security off, they estimate $210 billion.

Chairman DERRICK. We all know it is $210 billion. Do you think the House is going to pass it?

Mr. **Panetta**. I think the issue will be not so much whether you are increasing the deficit but whether or not you are taking the social security off the Gramm-Rudman calculation. Many of the Members I have talked to are convinced that we ought not to mask the real deficit anymore with the social security surplus but we ought to confront the nonsocial security budget and try to rediscuss that. Most economists think that is the right thing to do and so do most of the Members.

Chairman **Derrick**. I do, too. I introduced a bill to do that. We have had some bills before this subcommittee on it. I guess we will find out soon enough if we can do it.

Mr. **Panetta**. I think you will probably get a proposal to take social security off the Gramm-Rudman calculation without tying it to a budget process change. Then the question will be how do we then address the budget process consequences of an increased deficit.

Chairman **Derrick**. Do you think we grant too many waivers here in the Rules Committee? I know most of them are done on your recommendation. Pan together the budget committee and the Rules Committee; I guess we are equally troubled.

Mr. **Panetta**. I guess it is a question of how you can try to limit chaos. Unfortunately, as I pointed out, some of the scorekeeping provisions in Gramm-Rudman and the budget process produce what are absurd results that, frankly, if we didn't have the waiver available to us, would simply result in a consequence that nobody would want. So, having the ability to provide a waiver in those instances is extremely important. That speaks to the reason why we have to clean up the process so we have more rational scorekeeping requirements that we can enforce so that we don't have to use the waiver all the time.

Under the present circumstances, you have to have the waiver authority. I think you have used it responsibly. I realize there are some that would not want to grant any waiver, but you have to look at the legitimacy of the issues. If there is an emergency and we have to respond with that waiver, I think it is legitimate for the committee to grant those waivers.

Chairman **Derrick**. Do you think we should leave it to the majority of the House, to grant the waivers, or in some way to make it tougher?

Mr. **Panetta**. If you had a legitimate process in place and legitimate scorekeeping, you can do it with a two-thirds vote or have the House make the recommendations. You can justify that. Under the present circumstances, I think it would be nuts. The result you would have would be a situation in which no longer could the Rules Committee guide the Congress in trying to evaluate whether or not a waiver is required. You just throw it out to the floor. Very frankly, I think it would produce chaos.

Chairman **Derrick**. Do you think you have covered 90 percent of the gimmicks people can think of?

Mr. **Panetta**. I think we have done a pretty good job. I think we limit the need for waivers by what we have done here in this proposal.

Chairman **Derrick**. Thank you very much.

Mr. Wheat?

Mr. **Wheat**. Institutionally, as I look at the changes you talk about, I think you do the Rules Committee a great favor because you target almost all of the ability to violate the new process you are outlining with the Rules Committee. Butler was pointing out that waivers are almost always granted as a result of the Budget Committee requesting them. I cannot remember through three Budget Committee chairmen granting all waivers that the Budget Committee hadn't requested. So I am not sure under the process you outline here why there would be any greater tendency toward enforcement of the process than there is under the current budget process.

Mr. **Panetta**. You are right in the sense that I try to be careful about the recommendations on waivers, and I think the Rules Committee obviously does the same thing. The problem we are having is we are having to face the waiver more and more. To some extent, I think that is the product of the rules we operate under now. I think those rules need to be simplified, and I think the scorekeeping needs to be simplified. Regardless of what we do on waivers or how we enforce them, I think we have a responsibility to simplify the rules.

Mr. **Wheat**. If we don't make any change in our budget process and go through the Gramm-Rudman process through 1993, where would we realistically be?

Mr. **Panetta**. If you just simply continued on the present path, what you would probably wind up doing is you would probably under the Gramm-Rudman calculations, I think, reach a balanced budget by 1994. But the real budget deficit if you added social security back into it would probably be somewhere around $100 billion. Even though we achieved a supposed balanced budget under Gramm-Rudman, the nonsocial security deficit, we would still face a deficit of about $100 billion.

Gramm-Rudman would come off at that point and I assume the old budget process would go into effect, if we just continued on the present path we are on.

Mr. **Wheat**. Why would it be necessary beyond that point to get down to an absolute zero in terms of a budget deficit? We have almost always had a deficit of some size but why is it necessary to push to no deficit at all?

Mr. **Panetta**. It is really more of an economic argument. Our biggest problem now is trying to restore national savings. We have undercut it with borrowing from private savings, borrowing from trust funds, borrowing from foreign investors. That huge amount of borrowing has undercut any kind of national savings base for this nation that we really need for the future. I think by continuing to focus on deficit reduction in terms of the nonsocial security deficit, the bottom line is that you are adding to savings, you are adding to national savings, and I think that is important to do.

Mr. **Wheat**. I understand it is an economic argument but obviously now you balance the need for deficit reduction against the need for spending for other obvious needs of the country also. I am not so sure you really want to be tied into an inflexible plan again that required deficit reduction and wouldn't allow us to make the kinds of decisions as to whether we wanted to do deficit reduction or whether we wanted to increase spending for vital physical or social infrastructure needs.

Mr. PANETTA. Understand that the flexibility you build in here is the budget resolution in the sense that the budget resolution would have to present the pay-as-you-go approach to the Congress or revisions thereto. If the Budget Committee felt that in fact for some reason, for some emergency that we couldn't beat the pay-as-you-go requirement, then I think that would be incorporated in the budget resolution, and the House and Senate would have the opportunity to support or not support that approach.

Mr. WHEAT. Let me ask you one technical question about how this would work. Increases would be not allowed at all unless they were offset either by new taxes or by a cut elsewhere except that would not apply to individual bills. Do you mean the new programs that you would have would not show where funds are coming from for new programs.

Mr. HORNEY [staff member of Budget Committee]. The restriction is only on the budget resolution. The total deficit resolution is the total reduction. Mr. Panetta's bill does not apply to particular programs or particular pieces of legislation. It is just targeted for the budget resolution.

Mr. WHEAT. In the long run, assuming this process worked as well as it possibly could and we actually achieved a balanced budget by 1998, wouldn't this amount to a deflator and not allowing to match inflation?

Mr. PANETTA. You have to kind of make the decision if we want to engage in initiatives, do we feel strongly enough about those initiatives to be willing to pay for them or to offset it in terms of other costs? That is the bottom-line decision. It seems to me if a President of the United States or a Congress wants to engage in new initiatives, they ought to damn well be prepared to pay for it.

One of the problems I have with the President right now is he throws out a transportation proposal, for example, in the last few days, but nobody wants to pay for it. We had proposals last year for drug enforcement; nobody wants to pay for it. We have disasters; nobody wants to pay for it. Come on, if we want to face up to those kinds of responsibilities, then we have to face up to how we are going to pay for them. I don't think that is all wrong.

Mr. WHEAT. Thank you, Mr. Chairman.

Chairman DERRICK. Chairman Moakley, I did not see you come in.

Chairman MOAKLEY. I commend you for holding these hearings. As the member who served longest on the Budget Committee, it is about time you tried to do something.

Chairman DERRICK. Thank you, Mr. Chairman.

Mr. Pashayan?

Mr. PASHAYAN. I ask unanimous consent that Mrs. Martin's statement be put in the record immediately following your opening statement.

Chairman DERRICK. Without objection, it is so ordered. [See p. 2.]

Mr. PASHAYAN. Leon, I remember something that George Miller has been trying to market: a pay-as-you-go budget scheme here. Without going into detail, yours must be different in some principal respects. Can you just enlighten us on that.

Mr. **Panetta**. I am not familiar enough with his particular approach. I think what we do here is basically to establish that current services baseline as the basis on which we then build the budget resolution around it, and I think that is a little different from Mr. Miller's proposal. I think George's approach was build-specific and this is basically relating to the budget process as a whole. He is the cosponsor of my bill and supports this approach.

Mr. **Pashayan**. I wanted to also ask you this. You take one baseline, do you not, and work from there, or does the succeeding year become the following year's baseline?

Mr. **Panetta**. The last year spending level becomes the baseline. There are certain things built in such as interest payments on the debt which would be built into the baseline. Demographic changes would be built into the baseline. In other words, when social security recipients entitlements would automatically be built into the baseline. Instead of providing just across the board for inflation for everything, you do it without inflation. You take that level and if you want to provide inflation, you have to provide it with the resources that come in. We do gain additional revenues obviously each year as a result of what takes place in the economy. Those resources could obviously be used to pay for inflation growth as well as other initiatives.

Mr. **Pashayan**. Referring here to your very colorful chart, and I hope, Mr. Chairman, your record will preserve not only the chart but the colors.

Chairman **Derrick**. One would want to know if there is a pot of gold there.

Mr. **Pashayan**. The pot of gold seems to be in the middle. It shows the CBO baseline in the 1991 budget. In your scheme referring to the 1993 budget, would the 1992 budget become the baseline for 1993?

Mr. **Panetta**. That is correct.

Mr. **Pashayan**. It is progressive?

Mr. **Panetta**. That is correct.

Mr. **Pashayan**. Obviously, without the intricate knowledge you have, that seems to be a better way than just fixing it in one year and trying to gauge everything for that one year, like the traditional cost of bread in 1914 which has too many problems with it.

Mr. **Panetta**. I think the advantage of doing it this way, you don't set an arbitrary deficit reduction target. The trouble with Gramm-Rudman, when you BS your way to the target, you try to figure out why you are setting that particularly target? For what reason do you set a target under Gramm-Rudman target? What is the reason? Here your target is to maintain the current level of spending. If you are going to go above it, pay for it.

Mr. **Pashayan**. Looking at Congress for a moment as a political institution responding to various pressures, do you feel that the mechanisms that you establish in your bill will put enough pressure on Congress? In other words, I heard you say, using different words, that you feel this will isolate Congress, that we shall be putting the pressure on ourselves and, therefore, held accountable. We cannot pass the buck to OMB. We cannot pass the buck to the President. Do you think there will be sufficient pressure on Congress for this bill? As you know, this is why I was never in favor of an amendment to the Constitution. I am sure with all the work you put in this, if we put our mind to it, we could probably find some legitimate loophole. Do you think your idea here has enough discipline built into it that will discourage Congress from finding a loophole?

Mr. PANETTA. I look at process changes something like a corral. Right now the corral has a fence that is pretty well destroyed and you have all kinds of games being played, but I think if you develop a process that at least tightens up on the rules and makes it clear you have a tighter corral in which Members are obviously going to do the political thing in terms of how they respond to various concerns and constituencies. I think this at least tightens the framework within which we operate. Whether we make the right decision, I think, still depends on leadership.

Mr. PASHAYAN. That was not quite what I was asking but time is running out, Mr. Chairman.

Chairman DERRICK. We have about 4 minutes.

Mr. PASHAYAN. In other words, you were saying whether we make the right decisions within the corral is a question of leadership.

Mr. PANETTA. Sure.

Mr. PASHAYAN. Do you think the corral you are building has enough discipline to keep us in there will we still be able to get outside.

Mr. PANETTA. That is the advantage of what I have proposed here. We have tightened up the corral, improving the scorekeeping and getting rid of all of the gimmicks and gameplaying we see in the budget process. We have done it as tightly as we can. I am sure there are Members and staffers who are very imaginative and we will have to confront new issues but these are the concerns right now.

Mr. PASHAYAN. This will put enough political pressure on us not to do that?

Mr. PANETTA. I hope that is the case.

Chairman DERRICK. We have about 3 minutes left on a 15-minute vote, and there are five 5-minute votes after that. I will suggest if you can come back, Leon it seems we have the last 5-minute rollcall and we will come back after that.

Mr. GORDON. I would be interested, Leon, as you mentioned earlier, you said something will happen this time on the budget. How grandiose, it does not matter. You might want to give some thought to where are the common denominators, the Senate, add the managers and where will there be those areas of contention?

Chairman DERRICK. We stand in recess.

[The subcommittee was recessed at 2:20 p.m., and reconvened at 3:10 p.m.]

Chairman DERRICK. Since Mr. Gordon is not here, we will go ahead. I think he made an observation for you to think about.

Mr. Solomon?

Mr. SOLOMON. Mr. Chairman, I want to thank you for letting me sit in for this hearing; I am a member of the full committee but not of this subcommittee. I would like to say to my friend Leon Panetta, as I have said before, that he has my greatest admiration and respect. We all know how sincere he is and we all admire him for that. We are all fallible; you are, I am and so is Butler Derrick and all the rest of us.

A well-known rating organization rates me as being the seventh most frugal Member of Congress. Yet, I am the problem as well as everybody else.

Your whole bill, pay-as-you-go, I think is a great concept. Lord, knows, I would like to help you with it, but I think the whole concept of your bill is really based on the premise that Congress will do the job. In other words, that we will be responsible. Yet, I am irresponsible at times. And when you look at me and all 435 members, Leon, it's clear that we just have not done the job. That is why Gramm-Rudman came in. That was the worst piece of legislation this Congress ever adopted, but it was the only way to get us any discipline.

Your bill, of course, repeals Gramm-Rudman, and it repeals sequestration; that is where I have the concern about it. I don't know how we are going to deal with it. I have eight or nine questions. I don't want to take up your time here, but perhaps I could offer the questions and get answers back for the record.

Again, I want to tell you how much I respect you. I know what you are trying to do is sincere and I commend you for it.

Chairman DERRICK. Did you vote for Gramm-Rudman?

Mr. SOLOMON. No, I didn't.

Chairman DERRICK. I didn't either.

Are there any other questions?

Mr. PANETTA. I might mention for the record, Mr. Chairman, there are several proposals in the Senate. Chairman Sasser has introduced a proposal similar to what I have introduced in repealing sequestration and social security and some of the gimmicks and things like that. However, I think initially he would describe it as tying it to the payroll tax deduction in some way. The piece of legislation has not been introduced so we don't have something firmly to go on yet.

Mr. Russo has introduced a kind of pay-as-you-go, but there is sequestration for several years involved with it. There are obviously proposals to extend Gramm-Rudman out to 1997 or 1998 and changing targets. Those are some of the proposals that I hope you will look at as you try to develop an approach.

Chairman DERRICK. Thank you very much. You have been in all these budget meetings over the years just as I have, and we always thought for so many years we had this great ax over the administration with sequestration. But the ax didn't have a blade.

Mr. PANETTA. Somebody put their finger in the barrel.

Chairman DERRICK. Thank you very much for the excellent job that you do as Budget Committee Chairman.

Our next witness will be the Honorable Bill Frenzel, ranking member of the House Budget Committee. We would have you testify in any manner you choose. We would appreciate it if you would summarize.

STATEMENT OF HON. BILL FRENZEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. **Frenzel**. Thank you Mr. Chairman. I prepared a statement for the committee which needs correction but I will describe that in my comments.

I hope we will be able to in some legislation this year provide for some kind of reform of the budget process.

I would say first of all that I appeared at the press conference announcing Chairman Panetta's bill. I am not a cosponsor and I have not endorsed it, but it had some interesting concepts that should be discussed and attempts like that should be encouraged. I find some things I like in it and some I do not.

I think the idea of a pay-as-you-go budget is a good one. Somehow, that ought to be integrated into our budget law. I believe that we ought to use what Chairman Panetta describes as a spending base as the baseline. I think everyone in this room is very sophisticated and understands that. We now have a baseline which is whatever we spent last year plus the cost-of-living increase plus demographic increase, plus whatever program increases are around. It bears no relationship to what we did in the previous year. It would be nicer if we had some kind of spending base rather than a whimsical base which can be estimated very differently by different parties such as OMB and CBO.

I like the tightening of some of the definitions of the act and particularly such things as timing shifts ought to be eliminated. I think there is a good section on credit reform which clearly belongs in the Budget Act.

There is an item that is not stated correctly in my testimony and that is to provide the same mechanism for the Senate to handle changes in the national debt ceiling as in the House. I do support that. I believe that the debt ceiling extensions are usually a great thing for the Senate because they can tack whatever they want onto it. We have much more difficulty in our House playing with that.

One of the few items that I have ever supported that the majority leader invented was our system of handling the debt extension, and I think it would be nice if the Senate would accept it as well.

There are some very great deficiencies in the Panetta bill. I think the worst of them is that he immediately repeals Gramm-Rudman. That has several other ramifications.

Having repealed Gramm-Rudman, he provides for no enforcement to make the act work. He provides for some budget points of order, but your question, Mr. Chairman, of Mr. Panetta and his response tells us the problem there. You waive points of order and we in the House, in accepting your resolutions, go along with those waiver of points of order. So that, in fact, there is no enforcement in the system whatsoever.

There is another problem and that is that the targets are floating targets. They get constructed anew each year so you have no certainty as to whether you are going to work down the budget deficit at all. In fact, the chairman criticized the hard targets of Gramm-Rudman, but if you have no basis, my guess is that you never will avoid a deficit. I think that is a real mistake.

I think, first of all, if we are getting into this bill, we should not provide that social security trust fund receipts are taken off Gramm-Rudman. They are now off-budget already. That would necessitate changing of Gramm-Rudman targets. The last time we changed Gramm-Rudman targets was 1987 and we inflated the base lines by $12 billion which cost us more than a year's work in deficit reduction. I do not want to go through that problem again. I see no reason not to allow Gramm-Rudman to keep going until its expiration and perhaps to extend it in some form thereafter until we get rid of the so-called operating deficit.

Also, I do not believe there is any mask you can find in the President's budget. The description of what happens if you take social security out of the equation has been published for a number of years. It is no great secret.

I really think without sequestration, without Gramm-Rudman, there is no discipline. I have been a very stern critic of the Congressional Budget and Impoundment Control Act. I think it was an effort to increase deficits. I think since 1981 it has occasionally been used to reduce the deficit. The only threat now is sequestration—this years potential $18 billion domestic and $18 billion military cuts—certainly plenty of incentive for the Congress to negotiate with the President. And plenty of incentive for the President, with an $18 billion defense outlay reduction staring him in the face, to negotiate with Congress.

If there is any genius in Gramm-Rudman, which most of us would describe as a blunt instrument, I think that is it.

I have already said I like the pay-as-you-go proposition in the Panetta bill, but I can't find any way that he enforces it or makes it work. If somebody can show it to me, I would really be delighted.

I have a little different idea of that concept. I introduced H.R. 1613 which requires the Congress to work from the previous year's spending level. That gets rid of the concept of the baseline and takes you down to something everybody can understand—the number at which you ended the previous year. You will recall that Jimmy Carter used to talk about zero base budgeting, and I think this is about as close as you can come to that.

I have some information here, Mr. Chairman, that says that during the first session of the 101st Congress, the House waived various Budget Act points of orders on at least six major pieces of legislation including the dire emergency supplemental, FIRREA, the DOD authorization bill and a number of other appropriations measures.

I don't think the budget points of order do any good because of our willingness to waive them. Just last week on the first important piece of legislation we passed this year, something called the Rural Development Act, we also waived a Budget Act point of order.

It is true that normally, if the chairman of another committee asks the Rules Committee for a waiver, the Budget Committee will support such a waiver of the budget requirement. Since we are playing what I would consider to be the buddy-buddy game, that is not a very good defense against mischief, and I am worried about that.

The chairman indicated one of the reasons he wants to get rid of Gramm-Rudman is to get rid of the 1-year focus. I think he is dead right in his aim. I believe that we must have a multiyear reconciliation, and that we have to be concerned about more than one year. I think 5 years is the very least. It is only when you are looking at, for instance, the child care bill which you may look at one day soon, where the first year means nothing. The second year doesn't mean very much. When you get out to the 5th year you are in the $7 billion to $9 billion annual cost, and we have to do the planning for that.

We have had this game around here which if you stick a program in at a very low level at the end of the fiscal year, it is not going to amount to much, and it is a nice worthwhile program. Little do you know it is worth half a billion dollars when you get out a few years.

There is one reform notably absent from the Panetta bill and that is the one that would prohibit extraneous matter in reconciliation bills. Reconciliation bills are intended to reduce spending, and we find they are used to accelerate spending in many areas. If committee chairmen were not allowed to that, that is, if the Budget Committee were allowed to strip from the reconciliation bill, extraneous matters that are not part of the reconciliation structure, I think it would be very helpful. Last year the Senate in an excess of zeal stripped the budget reconciliation bill clean. The House acted similarly. We didn't completely clean ours out. I don't think anybody died. A few of us missed putting things in the bill that otherwise would have been in there, but it is not bad business to have clean reconciliation bills.

One final point is that we have a problem coming up very soon on working capital for REFCORP. I believe the proper suggestion is that it ought to be off Gramm-Rudman. You have a situation where if the expense for buying the assets and selling the assets occurred in the same year, you would be fine. You would have no net effect on the budget. However, it is more likely that we will acquire assets this year and sell them off next year, which means that we will be out of the ballpark in meeting the deficit target this year. Next year, we won't have to save anything because we will have the receipts from those sales and it will be a piece of cake to beat the targets or even tougher targets. I think eventually that will happen. At the moment, I think it is a little bit of a political football and anybody who thinks anybody else wants it will not be satisfied until the tribute is extracted.

I think you fellows have a terrible job. I have served on many budget task forces and committees. I know you have had your subcommittee going for a long time, but I hope you will take the most important features or the ones that seem to require urgent action and have them ready for a reconciliation bill when one comes along. I think it would be very difficult to pass a separate budget reform measure and expect the other body to react to it because their rules are quite different from ours. It seems to me you are probably going to be restricted to a few important points and on a vehicle that would be important—that has to pass.

Mr. Chairman, I thank you for holding the hearings and allowing me to testify.

[Mr. Frenzel's prepared statement follows:]

PREPARED STATEMENT OF HON. BILL FRENZEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

I would like to thank the chairman and vice chairwoman of the Subcommittee on Legislative Procedure for holding this hearing on Chairman Panetta's bill, H.R. 3929, to provide budget reforms, to repeal Gramm-Rudman, and to establish a pay-as-you-go budget process. In addition to commenting on Chairman Panetta's bill, I will take the liberty of mentioning several reforms contained in H.R. 3573, which I introduced on November 1, 1989. I will also discuss taking the RTC working capital off Gramm-Rudman which I believe requires prompt action.

I commend Chairman Panetta for presenting us with this comprehensive reform package. Proposals within this package which I find meritorious are: 1) the general idea of a pay-as-you-go budget, where each new program must be paid for; 2) the use of a "spending base" which does not have an inflation factor built in; 3) the tightening of definitions in the Budget Act, as well as some new rules to prevent gimmicks such as timing shifts; 4) credit reform which reflects more accurately the true costs of Federal credit programs; and, 5) providing the same automatic mechanism to increase the public debt in the Senate, as exists in the House.

I take issue with the following aspects of the package: 1) the immediate repeal of Gramm-Rudman; 2) the lack of real enforcement, because Budget Act points of order which are the claimed enforcement tool are often waived in the House; and, 3) floating, rather than fixed deficit reduction targets.

I oppose, as does the administration, the immediate repeal of Gramm-Rudman. I believe that only because of Gramm-Rudman have we seen the dramatic fall in the deficit from a high of $221 billion in 1986 to the current 1991 OMB estimate of $100 billion. Large reductions remain to be accomplished to meet the target of zero in 1993. I believe it is imperative that Gramm-Rudman remain in force and run its course so that the zero target can be met by 1993. If Congress finds it necessary to remove the Social Security Trust Fund receipts and disbursements from the Gramm-Rudman calculations, I then recommend that Gramm-Rudman be extended and that a new set of targets be established after 1993 to work off the nonsocial security deficit within a reasonable number of years. I strongly believe that congress needs the action forcing mechanism of sequestration in Gramm-Rudman to accomplish the unpleasant task of bringing the Federal deficit to zero, under whichever definition—with or without social security—is ultimately decided on. One version of extending Gramm-Rudman after taking social security out of the deficit calculations is contained in my bill H.R. 3573.

The idea of a pay-as-you-go budget makes a great deal of sense. When a new program is created, it should be paid for. I also find the use of a spending base which does not include inflation increases a good idea. I have long been an advocate of the idea that we should look at the previous year's level to see if spending for a program has increased or decreased, rather than working off of a "baseline" a "cut" may actually be an increase over last year's level. No individual taxpayer has the luxury of planning his or her finances in this manner, and neither should the Federal Government. I have also introduced a bill H.R. 1613—requiring Congress and the administration to work from the previous year's spending levels when producing a budget.

The Panetta bill envisions moving deficit targets calculated newly each year. The required deficit reduction is the difference between the spending base and the estimated revenues with an additional $10 billion through 1993. Without fixed deficit targets there is the danger that economic and technical reestimates will substantially erode the progress made in the previous year. Since a new target is calculated each year, it is possible that a non-social security deficit of zero may never be met.

The enforcement in the Panetta bill relies solely on Budget Act points of order. Budget Act points of order can easily be waived by a majority vote in the House. During the first session of the 101st Congress, the House waived various Budget Act points of order for at least six major pieces of legislation, including the dire emergency supplemental, FIRREA, the DOD authorization bill and several appropriations measures. I am not convinced that Budget Act points of order alone will be sufficient to curb Congress' appetite for new spending. There always seems to be a disaster, or some important cause that needs immediate funding, and therefore is worthy of a Budget Act waiver.

I do applaud the tightening of definitions of budget terms which Chairman Panetta recommends. Some loopholes have developed in current definitions which allows certain spending measures to avoid the constraints of the Budget Act—these must be corrected. The provision disallowing timing shifts will close up a large loophole which developed last year—I strongly support disallowing timing shifts.

I would not eliminate enforcement at the aggregate spending levels as Chairman Panetta suggests. I would go further and suggest an outlay point of order at the subcommittee level, as well as repeal of the so-called "Fazio" exception which allows committees to spend up to their committee allocation level even after the aggregate spending targets have been breached.

One reform which is notably absent from the Panetta bill, which I strongly endorse is a rule against extraneous matter in reconciliation bills. In H.R. 3573, I recommend that the House Budget Committee be given the authority to strip extraneous matter from a reconciliation bill before it is brought to the floor. Last year the Senate took the lead in stripping its reconciliation bill, with the House following suit during the conference. Never again should Congress be faced with enormous reconciliation bills, which are intended to be devoted solely to deficit reduction, but which are loaded up with extraneous provisions.

The Panetta bill makes various changes to Senate rules, such as eliminating the requirement of a super majority vote to waive points of order, elimination of enforcement at the aggregate spending levels, and an automatic procedure to increase the public debt as exists now in the House. The Panetta reforms appear to weaken the present Senate enforcement rules. I will be interested to see how the other body responds to such changes in its own rules.

One issue I feel will require fairly prompt action in Congress is the issue of taking the funds borrowed for RTC working capital off Gramm-Rudman. The working capital poses a problem because sums must be borrowed now to purchase failed thrift assets, but those assets will probably not be sold until future years, recovering the borrowed funds. Leaving working capital on Gramm-Rudman could lead to budget mischief with large increases in budget authority in one year and large receipts showing up in future years from sales of these assets. I urge Congress to act soon to take working capital off Gramm-Rudman.

I appreciate the opportunity to testify before this distinguished subcommittee and look forward to working closely with you in the area of budget process reform.

Chairman **Derrick**. Thank you very much.

If I understood your testimony correctly, you said you would not do anything about the social security situation.

Mr. **Frenzel**. I would not. I don't think it makes much difference if it is on budget or off Gramm-Rudman or on Gramm-Rudman. I don't have a strong feeling about that. My problem is you will have to move the deficit targets. The last time we moved the targets, we were nailed by everybody and we boosted our baseline. I don't want to go through that again. If you can find a way to change the targets without changing the baseline, then I am not going to be terribly resistant, but I prefer not to. I think it is too much trouble.

Chairman **Derrick**. I understand one of the major problems that you have with the Panetta bill is the same problem you have with Gramm-Rudman-Hollings, which is the lack of prohibition of extraneous matter on reconciliation.

Mr. **Frenzel**. That is one of them. Another is lack of enforcement in the Panetta bill. The Frenzel second law is taxes are forever and spending cuts are until the next supplemental appropriation.

The way I see the Panetta bill operating, we will serve up a budget in some year, pat ourselves on the back, and then 6 months later with supplementals and a year later with restoration of spending cuts, we will be right back where we started from but the taxes will be up there. That is the problem.

The other problem is the extraneous material you have mentioned. That is a problem. It is a problem like waiving budget act points of order. There are some things that you want to get in reconciliation that all of us would want to get in there.

Chairman **Derrick**. Do you think we need a Budget Act or Gramm-Rudman?

Mr. **Frenzel**. I think at the moment we need Gramm-Rudman because we have no other discipline. The only other discipline we have is the competition between the branches, because Congress has no inclination to reduce spending. Its incentives are to increase them. The President has some incentive to decrease spending, but he has some things that he wants to do, too. But since the interests of the President and Congress are different, we can sometimes negotiate a conclusion with the Gramm-Rudman sequestration threat in view. Without it, I think we will always do as we have always done before we had Gramm-Rudman, and that is if we had a choice of priorities, we would accept everybody's priority, and that is the way we would go.

Chairman **Derrick**. Thank you.

Mr. Wheat.

Mr. **Wheat**. I don't want to belabor this. I find myself not favoring many budget cuts. I think they involve real legislative discipline. I would agree if you have an automatic process enforcement mechanism included, I don't think the Panetta enforcement mechanism is particularly strong. At the same time, I am not sure that the sequestration mechanism is particularly strong either as a threat that requires the budget process to work. In fact, obviously, if it goes into effect, it is obvious it is not working in its intended manner.

Is there any other suggestion you would make for an enforcement mechanism other than sequestration and something stronger than requiring waivers of the budget process?

Mr. **Frenzel**. The supermajority in the Senate on the waiver has been helpful. That has applied some discipline in the Senate; either minority or majority can use it. It takes 60 votes to get a waiver and often that has been used to apply some discipline.

I don't know how else to do it other than, as you point out, it would be great if we had legislative courage and legislative leadership, but what is leadership to one is folly to another. We really have solved all of our problems by yielding to the demands of everyone rather than selecting what seemed to be the most crucial demands and particularly cutting back old programs.

Unless there is a threat, I don't know how we get Congress to come down on the deficit. I really don't. As the chairman feels, I feel it is very important.

Mr. **Wheat**. Thank you, Mr. Chairman.

Chairman **Derrick**. If I might interject a point, I have watched it not quite as long as you have but almost as long as you have. It isn't just true in this body. It is true with your State legislators. They are always looking for some mechanism that will prevent them from having to make a hard decision. I think that is what the Budget Act was about, to a large degree. I think that is what Gramm-Rudman-Hollings was about. I think the greatest hoax is the idea of this constitutional amendment about balancing the budget. This bill of Leon's is not perfect. He talked about a corral.

Mr. **Frenzel**. I think the fences are a little low.

Chairman **Derrick**. Mr. Pashayan?

Mr. **Pashayan**. Thank you, Mr. Chairman.

Let me pick up with where the chairman left off. Let me express the opposite view.

Several years ago, I spent some considerable time studying, scrutinizing language on the constitutional amendment and personally could find no language that would prevent a loophole that Congress, with a simple majority, could create although on the face of it, some of them call for a supermajority to go into a deficit. I think in each and everyone of them the traditional ones we are all aware of. With relatively simple legislative manipulation, Congress with a simple majority half plus one can very easily create loopholes to circumvent the entire constitutional amendment, so I do not put much faith in the constitutional amendment because I do not think it can block a simple majority from circumventing it. That extensively should be left to another day.

Bill, I asked Leon whether that baseline floated from year to year or progressed from year to year and he said yes, it did. In listening to your description, I got perhaps the other opinion. Do you agree with him that the baseline advances each year? You only refer back to the previous year for your baseline in the year of the budget, in the year you are considering.

Mr. **Frenzel**. It is what I would call a floating baseline. I think his intention is to go to this, whatever it is, zero base but it doesn't quite work that way. Therefore, you do have escalations of the baseline. It is better than what we have today. It is, I think, imperfect and maybe it is something this committee could work out. It depends on how you want to work it out.

Mr. **Pashayan**. I misunderstood your argument because I thought it was your proposition it was a single baseline and not a floating baseline.

Mr. **Frenzel**. My argument in favor of his bill is it comes closer to real spending than today's baseline. My objection to it is it is not fixed and so it is going to go up every year. So, your targets are going to change and your targets will always be moving targets, which gives you no fix. You have no north star to navigate by if you are trying to get to zero under the Panetta program. It would be easy for you to avoid never getting to zero, or avoid ever getting to zero.

Mr. **Pashayan**. He offered the proposition that somehow this bill, if I understood what he said, separates Congress from OMB. Let me restate that. He offered the proposition in effect that his bill puts the burden on Congress as an institution, not allowing Congress to pass the buck to OMB or even to the President and he feels, I think, that is the foundation for what he called the corral, that, namely, the Congress by this bill should isolate itself in such a way that all the focus including the political focus would be on Congress and that formulated a discipline. Do you agree that is his argument and disagree with the disciplinary effect?

Mr. **Frenzel**. First of all, I will let him make his own arguments. I am not sure. That is my understanding of what he said, but I think we probably both need to discuss it with him at greater length. My problem is that he seeks another problem which I did not raise here. He seeks to use CBO as the arbiter of economic assumptions. Let me remind you that everybody has made mistakes in the assumption game, and CBO has no cleaner pinkies than the administration has. Usually, they both miss by a mile. We are stretching out pretty far. We have to strike a budget in January for a year that is going to start 9 months later and extend 12 months after that. So you have a 21-month shot. It is pretty hard to do.

Now, if you are a President, you sure as hell don't want to submit a budget where somebody else is controlling the assumptions particularly when you think your programs are going to result in a nicer economy out there. The President strikes a budget based both on the laws that exist and the ones that he is going to propose. I doubt any president would like to suggest that we are going to have a recession during his term and, therefore, he should use assumptions we are having a hell of a time in the economy.

I think you sort of have to blend the CBO and OMB into the process the best way you can. My guess is you should not take OMB out.

Mr. Panetta said the problem is, once OMB sets a rosy scenario, Congress cannot use a CBO scenario which is less rosey because then it has to stretch farther. It has to do more with the cutting of extensions or the raising of taxes to get to the same place. I don't deny that it is a disadvantage. But on the other hand, I think it would be wrong to go the other way as well. I think there is at the moment a reasonable balance between the two institutions. You may want to change them, but you have to worry about that balance, and you have to worry about the administration's role in the process.

I have always said Congress has a much heavier hand and the President is a bit player in the budget appropriations process. Congress has the whole game in hand except for what the President submits. I sure don't want to reduce the President's abilities particularly when Congress seems to me to be more culpable in having created the deficit. The President, whoever he is, has not been an innocent party but he has been a less powerful participant.

Chairman **Derrick**. Mr. Solomon?

Mr. **Solomon**. Mr. Chairman, thank you.

Bill, I have read through this 75-page bill, and I just got my hands on the section-by-section summary. I could not find any discipline in this section-by-section summary. It does have some language on page 14 and page 15, but it really doesn't say anything. I would be interested, later on after you have read that section by section summary—did the minority have any hand in writing this section by section summary?

Mr. **Frenzel**. This bill came out of a Democrat task force which did a lot of the background work and then they were joined by Mr. Panetta and he became the chief sponsor because he encouraged them. I do not want to disparage their work. I think it is a good piece of work. I think it is a good starting point and I hope it can be improved.

You are right. I could find no enforcement. For instance, the claim of the Ways and Means Committee says Panetta's bill will make me buy any increases in entitlements. Medicare and social security would be rather expensive if there was any enforcement in there. He said he would like to make you pay as you go, but he has no way to force you to do so. So all you have to do is sit there and laugh at him. Maybe somebody can find more discipline in it than that, but I reach the same conclusion you do.

Mr. **Solomon**. To me, it is a real problem.

Let me just say I have to share the chairman's position on the balanced budget. I think one way you can look at this is to remember that the Senate rules have a requirement that requires 60 votes, which is three-fifths of a hundred, to approve a budget waiver; it is really work. If we do away with sequestration, we are cancelling the only thing that has given us discipline. I don't like to go home and say that because it shows we don't have the will to do our job.

If we had a balanced budget, and if there is an earthquake in California, hurricane in South Carolina or an incursion in Panama or even Cuba, this Congress would support legislation to going above the budget ceiling. That is why most of the proposed constitutional amendments call for a two-thirds or a three-fifths vote in violating budget ceilings. I think the Congress always has the will to spend more. It is a question of whether we are willing to spend less some time.

When you get a chance to look at this summary, check pages 14 and 15; we should really know what the enforcement procedures are. This just doesn't say what they are, if there are any at all.

Mr. **Frenzel**. I come to that conclusion, but when we are looking for ways to force ourselves to do something or make ourselves fit certain requirements, as I have looked at most of the constitutional amendments, they also have to provide some way to escape an emergency, a war, whatever, and all of them are subject to the point Mr. Panetta made; that is, if you get your growth assumptions up high enough, you can conquer any deficit. I believe that no matter what straightjacket we build for ourselves, there will be a way to scoop the system. If it isn't pushing costs forward or backward, it will be something else. I think we build the best corral we can build, but if the horses want to get out, they will find a way to jump it.

Mr. **Solomon**. Thank you Mr. Chairman.

Mr. **Pashayan**. Bill, in case this thing should reach the floor, is the minority preparing some elements? Are you translating your concerns into amendments?

Mr. **Frenzel**. I have talked to Mr. Panetta about it. At the moment, most of the Budget Committee's people power is turned toward trying to do a budget resolution and trying to grapple with other things. I assume eventually we get to summit and when we get to summit, we talk about some kind of procedural guarantees so that whatever we decide will actually take place. So, maybe at that time, we will work on it.

Leon and I would like to work on it, but I do not have amendments. I have explained the ways I think it is deficient, and I hope that we will be working on it at some time.

As I said in my testimony, I am not exactly sure a separate resolution is going to pass because there are too many problems. On the other hand, if this committee would work with Mr. Panetta and figure out a way to add something to the reconciliation where there would be some assurance that those provisions would stay with the bill if we could get senatorial acquiescence, it seems to me that is a good way to proceed. I think it is important for all of us to work closely together here.

Chairman DERRICK. I certainly agree with you on that point. I couldn't agree with you more. Thank you for your testimony.

We are now pleased to have before us the Dean of the House and chairman of the House Appropriations Committee, Mr. Whitten, who has been a great advocate of the Budget Act over the years.

STATEMENT OF HON. JAMIE L. WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. WHITTEN. I think I have done fairly well under it.

I have been listening to our friends here. What I learned when I used to practice law was that you lay an ambush. What I have done is to send copies of our committee's views to all members of the Budget Committee and the Rules Committee as to the situation as we see it.

Since we have had the Budget Committees, the national debt has risen to $3 trillion. Japan is buying out our whole country. We have over 30,000 bridges that need repair or replacement and road maintenance is way down. Something is wrong. The one group that is not responsible for this situation is your Appropriations Committee. We have reduced appropriations $173 billion below Presidential recommendations since 1945. Everyone sees that the country is going down hill fast, but it is not the fault of our Committee on Appropriations.

Actually Mr. Mahon came up with the Budget Committee idea. I talked Mr. Mahon into taking the lead on it because Wilbur Mills was going to take it. When Mr. Mills quit and Mr. Mahon quit, I had painted myself into a corner, and I was placed on the first study group. We reported that since many money bills were going around the appropriations process we should set up the Budget Committee with Ways and Means and Appropriations Committees in charge of it. This would get these two into balance. Instead, control of the Budget Committee was given to the legislative committees, and we had smaller representation.

I hope you will take time to read what I gave you about the origination of the Budget Committee because it is factual. I voted for creation of this committee. I was on the first Rules Committee group, the Bolling Committee, that developed the Budget Committee proposal.

They asked me to introduce the bill I had. This was at the request of the Bolling Committee, out of consideration to Mr. Bolling.

Here's what the Rules Committee and Mr. Bolling said about the bill.

> The process must be workable, must * * * not become an instrument for preventing Congress from expressing its will on spending policy * * * or * * * take away its power to act * * * must not be used to concentrate the spending power in a few hands * * * While * * * necessary to establish new budget committees, they must not be given extraordinary power in the making of budget policies * * * must * * * not override the well-established appropriations process. Through its power of appropriations, Congress is able to maintain control over spending. That power has been exercised responsibly and effectively over the years and it should not be diluted by the imposition of a new layer of procedures * * * must not load the congressional budget process with needless and questionable details.

We need to start off by admitting where we are, and by admitting where we are, its obvious something is wrong. It is not the fault of our committee. In setting up the Budget Committee we set out to control what was happening. Yet we have not seen any control of the legislature which has bound us to pay entitlements. We have not exercised any control over raising money to pay what is owed.

We talk about pay-as-you-go. I think we ought to go and pay. Nobody is for taxes, but you can't keep spending and not paying. If we keep going the way we are, we will get where our money is no good.

I majored in business and commerce in college prior to law. Economists all work for salary, and they don't agree about anything. The biggest thing I learned is that you can't neglect to look where you are so you can figure out the next step.

In 1981 we had supply side economics. It was wrong. If you forgive taxes, it was thought that everyone will spend wisely, and everybody will get rich. Well, we tried it. If we hadn't passed the 1981 tax act we would have collected $142 billion in 1988 and $195 billion in 1990 of additional revenues.

The Budget represents a small percentage of the GNP. During the period of tight nondefense budgets we need to review what has happened. We have had 800-some-odd savings and loans to go bankrupt. We have had 300,000 farmers to go bankrupt. We have had 600-some-odd banks to go under. So something needs to give. I will say again it is not the fault of our Committee on Appropriations.

One of our biggest problems is we get money mixed up with wealth. When the economy slows down the Federal Reserve System issues more money and it takes care of the problem temporarily but it adds to the debt, and that is what we have been hiding as our real true situation.

As I point out in my statement, if you take time to read it, I am still for what we set out to do back when we established the Budget Committee. But under the Budget Act we have not been doing it. Let me say I believe we need to balance the budget, but the real wealth is material things. We let the condition of our bridges go down. We let the condition of our highways go down.

I say to you that we must do whatever is necessary, but we had better not hide the facts from ourselves.

In 1974, when the Budget Act was passed, nondefense discretionary outlays were 24 percent of the budget. The amount of nondefense discretionary spending in the President's 1991 budget has been reduced to 15 percent of the total, a reduction of 37.5 percent since 1974.

Mr. Chairman, the prime purpose of your hearing is the use or abuse of the budget process. I would like to point out that the budget process imposed by the Congress itself for fiscal year 1990 through the budget resolution, the reconciliation bill and sequestration, is a process that is itself contrary to the intent of the Congressional Budget Act and the Gramm-Rudman-Hollings law.

During the 100th Congress, the Appropriations Committee, through its established subcommittee structure, held over 512 days of hearings, taking testimony from 9,570 witnesses that was recorded in 182 volumes of hearing records, comprising some 180,942 printed pages. The 100th Congress was not unique, it was just typical. That is the work we do. What does it result in? A cut in $173 billion below Presidential requests since 1945.

So you had better look somewhere else and not at our committee. We have cooperated, but we have run out of elbow room to cooperate any further. It is just that simple.

I could say more, but we are dealing with our colleagues and they are fine colleagues. The best I can say is they have themselves mixed up the money and the wealth. It has mixed up paper and wealth. The only thing behind our paper is our country itself.

It is important that we balance our budget but it is 10 times more important to look after your country because your country is what is behind your paper money.

With respect to this pay-as-you-go, I say go and pay. Look after the country because that is important. I could go on and on and on, but it has reached the point where we can't handle it anymore by cutting down appropriations without neglecting our own country.

Let me tell you there is only one way to handle a debt—produce more than you need and pay it off. We have all these foreign products coming here to take our domestic markets. We are the only country in the world following our policy in world trade. Every damn one of them, if you excuse the expression, keep us out, and we let them come in here take our domestic markets. It won't work. If you don't believe it, look at today's paper and see how much we owe and how things are going.

I have no axes to grind except to take it as it is. I just want to remind everyone that there are all the differences in the world between wealth and paper money.

You know, there is no way to make Congress do a thing in the world. It will get around addressing the problem as it has for years. We are not kidding ourselves. We owe all this money, $3 trillion, more than any nation in the history of the world. We have accummulated it during a period when we tried to make ourselves do different with the Gramm-Rudman-Hollings law. Therefore, if you have to try to make Congress do something, it must not be too right to start with.

Now, on sequestration, we should not have had sequestration for fiscal year 1990. We should not have had these continuing resolutions. In the House, we took care of it. We did our work.

We're in a serious situation. I think it is far more serious than most of our friends think, but again we need to balance the budget. We need to take care of our monetary system for stability so you can count on something, but it is peanuts against giving away your country.

I appreciate the chance to come here. What I have tried to do is just lay it out. As I said earlier, you need to ambush, you need to get the jump on them. I laid it in front of them and I laid it before you. We can't take the load anymore through appropriations without cutting important things. Now, we have to let the Budget Committee get the credit for cutting these domestic programs.

Mr. SOLOMON. He tells it like it is.

Chairman. DERRICK. Have you concluded your testimony?

Mr. WHITTEN. I hope you will find time to read what I sent you. It contains a little more in detail, but it is the facts.

[Mr. Whitten's prepared statement follows:]

PREPARED STATEMENT OF HON. JAMIE L. WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Chairman Derrick and members of the subcommittee, I would first like to take this opportunity to thank you for inviting me to testify on the issue of budget process reform. The views and estimates report of the Committee on Appropriations has been provided to Members of the Rules Committee. Those views lay out the economic problems we, as a nation, face. The policies we have followed the last 10 years have brought us to where we are. It is obvious we can't continue following those policies. We must regain our share of foreign markets and rebuild our productive capability, and believe me, we must regain our domestic markets. We must not let the budget process keep us from getting back on track. After all, we live in a competitive world, as our financial conditions show.

LET'S RETURN TO THE BUDGET ACT

I have always supported the Congressional Budget Act over the years, though we have had different views as to its operations. I was the senior co-chairman of the Joint Study Committee on Budget Control which was the study group that made the initial recommendations to the House Rules Committee which led to the drafting of the Congressional Budget Act.

I was the ranking member on the first Budget Committee and I have supported the various budget resolutions down through the years. I do believe, however, for it to work, attention and action must be taken on entitlements and binding contracts—back door spending.

For the past few years of its life, attention has been given to cutting back appropriations bills, where we have cooperated, no special attention has been given to legislation providing for entitlements and back door spending or to providing adequate funds to meet our obligations. This situation was not contemplated by the Act.

The main purpose of the Budget Act was well described by our former colleague Dick Bolling in December 1973 on the floor of the House, who, on behalf of the Rules Committee, laid out realistic guidelines for the budget process which are still valid today. He said:

The process—

1. Must be workable.

2. * * * must not become an instrument for preventing Congress from expressing its will on spending policy * * * or * * * take away its power to act. * * *

3. * * * must not be used to concentrate the spending power in few hands. * * * While * * * necessary to establish new budget committees, they must not be given extraordinary power in the making of budget policies. * * *

4. * * * must * * * not override the well-established appropriations process. Through its power of appropriations, Congress is able to maintain control over spending. That power has been exercised responsibly and effectively over the years and it should not be diluted by the imposition of a new layer of procedures.

5. * * * must not load the congressional budget process with needless and questionable details.

It is obvious these guidelines have been violated again and again and the Budget Act simply hasn't worked as it was intended. In fact, it has had the opposite effect. What it was created to check, entitlements and back door spending, have increased by 5 times since 1974. In addition, on many occasions, the delay in reaching agreement with the other body has led to continuing resolutions, which many oppose.

In 1974 when the Budget Act was passed, nondefense discretionary outlays were 24 percent of the budget. The amount of nondefense discretionary outlays in the present budget has been reduced to 15 percent, a reduction of 37.5 percent since 1974.

This trend was especially pronounced in the 1980's when budget resolutions repeatedly required large reductions in domestic discretionary programs. Gramm-Rudman-Hollings sequestration added to this burden by requiring discretionary programs to pay for failures in the reconciliation process to meet nondiscretionary spending and revenue targets.

Mr. Chairman, the prime purpose of your hearing is the use or abuse of the budget process. I would like to point out that the budget process that has been imposed by the Congress itself for fiscal year 1990 through the budget resolution, the reconciliation bill and sequestration, is a process that is itself contrary to the intent of the Congressional Budget Act and the Gramm-Rudman-Hollings law.

Any change to the budget process should leave alone the part that works—the appropriations process—and focus on the part that doesn't work. It is clear that the part that hasn't worked is controlling the growth of mandatory and backdoor spending. We at the Appropriations Committee know this first hand because it is our important discretionary programs that must pay the price through sequestration.

It is also important to return the Budget Committee's focus to the "big picture" economic issues. All too often we find the Budget Committee trying to "fence" appropriated funds for programs of interest to certain of their members. This is not their job, and any revision to the process must make this clear.

CONGRESS—THE PEOPLE'S BRANCH OF GOVERNMENT

I am proud of the fact that the Congress is the People's Branch of Government. The recommendations made by the Appropriations Committee are based on extensive hearings and review. Markups are conducted on a line-item basis. During the 100th Congress, the Appropriations Committee, through its established subcommittee structure, held over 512 days of hearings, taking testimony from 9,570 witnesses that was recorded in 182 volumes of hearing records comprising some 180,942 printed pages. Furthermore, the committee conducts hundreds of studies of various Federal programs and activities.

We have followed this same time-tested procedure again this year. Drafting appropriations bills is not an exact science, but it is based on the sound underpinnings of hearings, studies, and other review. And we do the best we can to reach a consensus that is satisfactory to the majority on both sides of the aisle.

APPROPRIATIONS NOT THE PROBLEM

Appropriations bills were not where the problem was, nor are they the problem now. Since 1945, appropriations bills have been below budget requests by $173 billion. During that same period, entitlements and binding contracts, which are not discretionary, have increased by five times (+$499.6 billion), a fact which contributes greatly to the increase of the national debt.

Our committee has cooperated in meeting budget targets until there is little, if any, room left to cooperate if we are to continue essential domestic programs. Nondefense discretionary domestic programs have been squeezed to the point where they will cease to be effective if further reductions are made.

PROBLEMS WE FACE

Currently, we have a national debt of over three trillion dollars ($3,000,000,000,000), with a $2,000,000,000,000 increase in the last 10 years alone, the largest debt of any nation in history.

Dealing with this debt, along with eliminating the trade deficit, winning the war on drugs, adjusting to the rapid changes in Eastern Europe, and finding ways to boost productive investment spending present the Congress and the Nation with some of the most serious decisions we have had to make in our history. We must meet these challenges if we are to retain our leadership position.

With today's debt, it is easy to see, like an individual, we must produce more than we consume and export more than we import in order to earn more than we spend. The way to do this is to increase production and to recover our domestic markets and our normal share of foreign markets.

To do this, we must reverse our course.

We must rehabilitate America's industry, improve our educational facilities and strengthen our educational programs, repair our roads and bridges, repair our waterways, and strengthen our research and development efforts—especially in education and in health. We must also gain control over the illegal drug problem and clean up our environment.

In addition, we see more and more financial commitments being made by our leaders to various countries in almost every area of the world.

In order to meet these and other needs and to keep our growing international commitments, we must provide for increased income to the treasury and take measures to modify the requirements of Gramm-Rudman-Hollings and the limitations in the Budget Act.

LOSS OF REVENUE BASE

The President's budget best illustrates the effect on revenues on policy changes proposed by the administration and enacted into law in the Economic Recovery Tax

Act of 1981. That table shows that revenues would have been higher and consequently the deficit would have been lower by the following amounts:

Fiscal year:	*Revenue loss*
1988	$142,600,000,000
1989	171,300,000,000
1990	195,300,000,000
1991	219,800,000,000
1992	258,300,000,000

The apparent prosperity is made possible by the borrowing of over $2 trillion and producing a $3 trillion debt, from the sale of billions of dollars worth of assets in order to pay current operating expenses.

We must look in directions other than appropriations bills in order to meet deficit reduction targets.

INVESTMENT SPENDING

We need to solve our economic problems and to protect our financial system—but not at the expense of education, health, roads and bridges, housing, water systems, harbors, our dams—all of which are investment spending, the benefits of which will last for years. This type of productive spending is essential for the continued development and protection of our Nation.

In the long run, it is apparent that a distinction must be made between investment spending, where the benefits will exist for years, and other current spending.

RECONCILIATION AND THE EFFECTS OF SEQUESTRATION

A central feature of Gramm-Rudman-Hollings is sequestration. At the time of G-R-H enactment, the sequestration mechanism was devised as a means to require that budget deficit targets be met. Since then, all sorts of actions have been condoned to give an appearance of meeting the target set out in the resolution.

For fiscal year 1990, the Appropriations Committee essentially met its budget resolution goals to avoid sequestration. However, a sequestration still was adopted as part of the reconciliation package due to the failure of others to meet their congressionally directed budget resolution targets. In the view of some interests, an across-the-board reduction in discretionary spending was more attractive than other options, such as revenue increases or entitlement reductions. This was a case of reconciliation making bad matters worse. For years, it hasn't worked the way it was intended. And like the Budget Act itself, when it is used, it is at the expense of those areas that do work.

EARLY AUTHORIZATION NEEDED

The authorization problem is chronic and shows absolutely no sign of improving on its own. These provisions of the Budget Act have been ignored and they are not adequate. Legislative timeliness is essential to Congressional budget control. If a device is not found to secure authorizations in a more timely manner in such sensitive areas as national defense, international affairs, health, education, science, energy, and others, the legislative budget process will become inoperative and the Congress will have forfeited a rare opportunity to implement effectively its will in setting national priorities and achieving legislative budget control.

Whatever solution that may be agreed to should also include a revision of the House Rules—perhaps Clause II of Rule XXI—which would disallow points of order against funds in appropriations bills after May 15 if renewed authorization is not enacted by that date. In other words, points of order would not lie against items in appropriations bills after May 15 because authorizations had not been enacted. This waiver could be written so that it would not apply to new programs.

I am very grateful for the opportunity to have presented my views on ways of improving the congressional budget process. This is a most important issue to the Congress and the Nation and our credibility as an institution hangs in the balance.

Thank you.

Chairman **Derrick**. You have had more experience in this than any Member of Congress. We will certainly read it and thank you very much for your testimony. Mr. Wheat?

Mr. **Wheat**. No questions.

Chairman **Derrick**. Mr. Pashayan.

Mr. **Pashayan**. I have no questions, but I should like to say the chairman made a consummate statement.

I just want to ask one question. When you say you talked about Congress being able to get around or to find loopholes, did you include a constitutional amendment?

Mr. **Whitten**. Throughout history it has.

Mr. **Pashayan**. Do you favor a constitutional amendment?

Mr. **Whitten**. No. You can't tie your hands. It would be the biggest mistake in the world. You had better take care of your country.

Mr. **Pashayan**. Maybe you and I are at the same position. I do not think we should be tying its own hands because there is always a loophole.

Mr. **Whitten**. We had better exercise our option, and I appreciate your statement. We had better leave it where it has to be because who can tell us about the future, but we had better have the nerve to do as our Committee on Appropriations has done. It can be done.

Chairman **Derrick**. Mr. Solomon, any questions?

Mr. **Solomon**. No, I just want to thank the chairman for speaking from his heart.

Chairman **Derrick**. Thank you very much.

Mr. **Whitten**. Thank you very much. We are all in this but keep in mind money is not wealth.

Mr. **Pashayan**. I ask unanimous consent to put into the record the statement of Robert Michel.

Chairman **Derrick**. Without objection, Mr. Michel's statement will be placed in the record.

[The statement of Representative Robert H. Michel, as though read, follows:]

STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Michel**. Mr. Chairman, thank you for this opportunity to discuss the budget process, and in particular the Panetta "pay-as-you-go" approach.

I have testified many times and authored many budget proposals. Budget reform first demands examination of the many elements of legislative budgeting.

For purposes of our current discussion the major elements of the Congressional Budget Process are:

(1) the authorization and appropriation process;

(2) the budget resolution; reconciliation; and the timetable for action;

(3) budget procedures; points of order; and enforcement; and

(4) economic assumptions and baselines.

I would briefly like to discuss aspects of each of these.

The authorization and appropriations process has been steadily deteriorating during the last decade. Our appropriations bills are now composed in large part of unauthorized appropriations.

Authorization bills are not being considered in any logical time sequence and, in recent years, have often been added to the reconciliation bill at the end of the budget process.

Many of these elements overlap—this is particularly the case with our current budget timetable.

The second element concerns a problem we are all too familiar with:

The initial budget resolution consumes much time and energy. Each committee, interest group, or faction of a party insists on its budgetary share. Instead of the broad questions of revenues and expenditures, budget proposals are sewn together from the smaller programmatic viewpoint of each of the participants in the process.

Too much time is taken to get a separate budget resolution through both the House and Senate. After much time and effort to pass them, they then languish in conference as each House is reluctant to recede from its hard-fought positions. After the conference report is finally agreed to, we find that the two appropriations committees of Congress have reallocated all the spending priorities of the budget resolution.

Somehow, perhaps through a joint Budget Committee or some other means, we must shorten this timetable.

The reconciliation bill currently provides too easy a target for extraneous measures to be added. We've all talked about the "only train out of the station" mentality of legislating. We see it year after year. We have also witnessed its debilitating effects on our legislative process. We've got to address this somehow.

The third element is both controversial and effective.

I refer to the area of procedure and enforcement. It is controversial because it is here that the Gramm-Rudman changes have been felt the most.

The general procedures of the 1974 Act have greatly assisted the Senate by providing a process to expedite the consideration of the budget implementing bill, i.e., Reconciliation on the floor of the Senate. If it were not for the budget process, the Senate would have been subject to endless filibusters and delaying tactics aimed at derailing certain proposals. The Budget Act has allowed the Senate to consider reconciliation bills without delaying tactics or endless non-germane amendments.

At the same time the super-majority requirement to override points of order have been controversial in that 60 votes are required in the Senate to consider any proposal which would exceed our deficit targets. This has been used by both sides to deny the opportunity to vote on issues where a clear majority is in favor but lacks the necessary 60 votes.

I would prefer having the point of order backstop over nothing at all. The other points of order have been less effective in the House of Representatives as the House Rules Committee routinely waives budget points of order and very few measures are stopped in the House for violating the Budget Act. This is another area which we need to address.

The only real teeth in the budget process was the creation of a sequestration procedure in Gramm-Rudman which has the effect of cutting the budget across the board with a few exceptions if the Congress fails to meet the target on its own. This procedure has been effective in forcing the targets to be reached, but I recognize that it is at the same time the most controversial. But again without this type of enforcement I fear the consequences of an unrestrained Congress.

We do have to address the role of social security receipts and expenditures and not have them mask the true size of the deficit. We must do this without affecting the integrity of the social security trust fund.

With respect to the budgetary treatment of social security, any change should have as its principal objective the protection of the integrity of the social security trust fund. The current social security surpluses and buildup of reserve balances in the trust fund, resulting from the bipartisan social security compromise of 1983, are needed to assure the benefits of the present "baby boom" generation of working people. Nothing should be done to jeopardize those reserves.

It is true that the annual social security surplus is now being used to finance a part of the deficit in the non-social-security budget. This should not be surprising. By law these surpluses must be invested in Treasury securities. The solution to this problem is to balance the non-social-security-budget. If that were done, the social security surplus would, in effect, be saved through reduction of the national debt held by the public.

There are several ways that this objective can be obtained. One is to remove social security from the budget totals for purposes of calculating the deficit under Gramm-Rudman and requiring, after a phase-in period, a balance in the rest of the budget. The administration has proposed an alternative plan with similar effects. Whichever means is chosen, it is imperative that real safeguards be included to protect social security, with its huge prospective reserve balances, from the future "raids" by Congress.

The final element that is probably the hardest to both understand and deal with is the economic assumptions and baseline questions. Budgets are dynamic by their very nature, as programs response to increases in inflation, unemployment, even earthquakes, and so forth.

Our difficulty is trying to forecast in advance what the economy is expected to be a year from now. Many times we have found half way through the fiscal year that our assumptions were incorrect and oftentimes further spending or additional offsets are required.

This area too needs a lot of thinking and work as to how we can make it better. I don't have any perfect solution, but I think that we may want to look at ranges for certain elements of our initial budget resolutions based on differing economic assumptions.

I understand that in the end—at the conference level at least—we must fix our economic assumptions. I would be happy to consider any ideas the committee might have as well. It has been in the area of economic assumptions that accusations have been traded over using "rosy scenarios" to mask real budget outlooks and has become a yearly ritual for Congress to question an administration's assumptions usually with the end result of Congress using the rosier assumptions themselves.

The need for a Budget baseline is also a necessary evil as we need some benchmark against which to judge our actions. I do not agree with our baseline being last year's actual spending plus inflation as I perceive that this becomes a bias for more spending and the cycle continues. Furthermore, when we don't provide full inflation increases, we claim a "reduction." This is not only confusing, but misleading as well.

I want to again thank the Rules Committee for asking me for my thoughts on the Budget Process. As you have already noticed instead of just addressing Chairman Panetta's approach I tried to raise those major areas which true budget reform should address. Chairman Panetta and I obviously disagree on some aspects, such as the rule of Gramm-Rudman, but I am confident that we agree on the need for a meaningful budget process. Some of the other problems I have raised are not resolved in his approach, but I know the committee will want to look at every side of this issue.

Thank you again for this opportunity.

Chairman DERRICK. Next, the distinguished ranking minority member of the House Appropriations Committee, Mr. Silvio Conte. You can testify in any manner you wish. If you care to summarize, that would be fine.

STATEMENT OF HON. SILVIO CONTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. CONTE. I will go ahead with my statement, if I may.

Chairman DERRICK. We are delighted to have you.

Mr. CONTE. I appreciate that. I thank you for letting me in the room today. I can't tell you what a delight it is I am not here trying to defend an appropriations bill.

Mr. Chairman, any budget reform proposal is really an ambitious undertaking to say the least. Having tried to get one out of my staff now for many months, I appreciate how much work and thought go into a proposal like H.R. 3929.

As I see it, there are two main thrusts in Representative Panetta's bill: First, to repeal the Gramm-Rudman-Hollings law and replace it with a new, pay-as-you-go approach; and, second, to refine the existing budget process. Let me take that step by step.

I support the repeal of Gramm-Rudman-Hollings. I voted against it when it was first introduced. I agree with those who criticize it as leading largely to the use of gimmicks and subterfuge to beat the deficit targets. But even more strongly, I oppose Gramm-Rudman's hit man—sequestration.

Contrary to the popular perception, sequestration does not hit all programs equally. Two-thirds of the Federal budget is exempt from it; the burden of sequestration falls on the remaining one-third of the budget. That one-third consists of some of the most important programs in the Federal Government—student aid, biomedical research, job training, safety inspections, housing for the poor. Gramm-Rudman has its priorities, and they are wrong.

Furthermore, as this past year proved, sequestration is not a deterrent. If Merchant Marine and Fisheries and other committees do not meet their mandated deficit reduction targets in Reconciliation legislation, they don't get penalized. They don't get penalized at all. They don't have to go back to the drawing board and figure out how to make the painful cuts in the programs that they control under their jurisdiction. Instead, sequestration kicks in and takes it largely out of the hide of annually appropriated programs. In fact, a committee that does not meet its Reconciliation targets is rewarded because, under sequestration, someone else takes the hit. The incentives of sequester are all wrong. So, I'd be happy to get rid of it.

Having repealed Gramm-Rudman-Hollings, I am not overly optimistic that pay-as-you-go budgeting alone, that is, freezing the budget at last year's level and balancing any increase with budget savings, will be much more successful.

Conceptually, I don't have any problem with pay-as-you-go. In fact, it ought to be a requirement for any authorization of any new programs. If you want a new program, tell us how you are going to pay for it.

But to say that all items except social security start off at an absolute freeze, and any increase in spending over the previous year's level must be accompanied by a way to pay for it, is a pretty harsh standard. So tough, in fact, that I would be afraid it would lead to abuses, savings in name only, in much the same way Gramm-Rudman does now.

Rather than put my destiny in the hands of a new automatic formula alone, if there was a chance of revising the budget process, I would put my money on leadership. The one bright light in the budget process was the budget summit we had in 1987.

Incidently, everything that Dan Rostenkowski proposed in his recent budget proposal was discussed in the budget summit in 1987, every single one—freeze across the board, freeze in social security, freeze in Federal pensions, gasoline taxes, sin taxes on cigarettes, every one of them. We looked at those proposals, and they were voted down.

I remember that. The leadership of the Congress and the administration got together and produced a viable and real 2-year budget, if you remember that, Mr. Chairman, and it worked.

I would institutionalize that process. I would call that group the Budget Committee. Get everybody in the same room: the leadership, the Budget chairman and the ranking member; the Appropriations Committee chairman and ranking member; Ways and Means chairman and ranking member—the committees that have to carry out the whole thing—and the administration in the same room. Make them come up with a plan, outline it in the broadest possible terms and then send everyone on their way to draft Reconciliation and appropriation bills to carry it out.

I would make one further proposal. I would have armored cars ready after that decision is made. The Members march down to the armored car, which goes directly to the White House, and with the President holding each others hands, they make the announcement, saying we are all in this together, and this is what we believe can be done to reduce the deficit. Otherwise, it will all unravel like a ball of yarn.

I think a number of Members have proposed that type of summit process, Senator Domenici, for one.

Regardless of whether we are talking major change in the budget process, as I would like to see, or refinements, as in Mr. Panetta's bill, one area of the processes is bleeding and needs attention, and that is enforcement of Reconciliation instructions.

The area of largest absolute growth in the budget over the past 10 years has been in mandatory and entitlement spending from $277 billion in 1980 to $544 billion in 1989 100 percent growth. Uncontrollable spending remains uncontrolled.

Reconciliation does not work as an effective control because there is no enforcement mechanism. Authorizing committees are instructed to make savings as part of Reconciliation but, if they fail, nothing happens to them. Last year, we had a sequester because other committees failed to meet their targets. Certain committees repeatedly fail to make savings, and that must be changed.

The Budget Committee must either force committees to meet their deficit reduction targets or independently include amendments in Reconciliation to meet them. Even if you had to pay-as-you-go, you still need to make the committees produce the pay-off.

Section 303(d)(3) on page 28 [See p. 31, line 18 of this hearing] of the bill merely repeats current law by stating that the Rules Committee may, and I emphasize "may", make in order amendments to achieve Reconciliation directives. I would say make that "may" a "shall" and add a provision that Rules will not move a Reconciliation bill until the full amount of the required savings are made.

Second, keep extraneous spending provisions off of Reconciliation. New spending programs with low first-year outlays but high outyear costs have been routinely included in the Reconciliation bills. I have a copy of the hearings held by this subcommittee way back in 1986 on this issue, when one of the witnesses was Congresswoman Martin, testifying on the basis of her Budget Committee experience in favor of excluding extraneous provisions. The bill I introduced, H. Res. 264, pending before this committee, is very near the Trent Lott proposal pending at that time. We are currently working on a further revision of that proposal. Last year, the Governors asked us to stop adding new spending because they couldn't afford the match anymore. In the name of budget sanity, I think it is high time to close this loophole.

In summary, Mr. Chairman, my advice would be to recommend that the Congress seize the opportunity for budget reform, should it present itself for three purposes: First, to repeal Gramm-Rudman-Hollings, I call Gramm-Rudman.

Chairman DERRICK. I have to listen to Joe Moakley all the time so I will understand it.

Mr. CONTE. He picked it up from me.

Second, to institutionalize the one mechanism that has shown itself to be constructive—budget summitry; and, third, to install effective enforcement mechanisms to get a handle on the up-till-now uncontrolled and uncontrollable part of the budget entitlements.

I want to compliment Chairman Panetta on his proposal. He is out to take the bull by the horns, and I hope the suggestions I have made here help the roundup in our quest to corral the budget deficit.

Thank you for this opportunity, Mr. Chairman. I will be glad to answer any questions.

Chairman DERRICK. Thank you, Mr. Conte, for your excellent testimony.

As I understand from your testimony, you don't think sequestration works, and I agree with you on that. I must have been in 340 meetings over the years and we thought every time we mentioned sequestration, the White House shook. We found out that was not the case, but I agree with you.

I am not sure that I completely agree with you on reconciliation, but I understand that it had worked as it should. As we discussed before you got here, it is hard to do anything if the body does not have the will to do it. You really can't make them do it. You mentioned in one part of your testimony, we need more enforcement procedures. Would you care to elaborate on what you have in mind?

Mr. CONTE. One thing would be to give the Rules Committee the power not to pass——

Chairman DERRICK. We have enough people around here who hate us already.

Mr. CONTE. They won't hate you any more than the Appropriations Committee. We feel like a skunk at a lawn party. Two-thirds of our budget is uncontrollable—the veterans pensions, social security, medicare.

Chairman DERRICK. And the military budget.

Mr. CONTE. The military budget. It really puts a terrible squeeze on the discretionary piece of pie, which is awfully small to work on. I wish you could be sitting right now where I am sitting with Bill Natcher in hearings on the health field. What is happening? The National Institutes of Health—cancer, lung, diabetes, digestive diseases, eyes, ears, nose—on all of those, how they got beat on the head with sequestration and how they got beat on the head by getting just enough money to keep up with inflation, and how the number of grants is going down. It is sad. It really is sad. They are approving now about 17 to 20 percent of the grant applications. It used to be 50 percent. How will we ever find a cure for cancer or any other disease, like AIDS, unless we have the money for the grants for the young scientists?

Chairman DERRICK. I agree.

Mr. CONTE. We have not been able to recruit a scientist for 10 years. We have not been able to recruit a scientist for 10 years. We lost last year 17 of them to Georgetown Cancer Hospital. The Vince Lombardi Cancer Institute took them away from NIH, because we are not paying them enough. We don't have a director. President Bush has not appointed a director to NIH. One of the reasons is, who wants the job for about $80,000 a year, when a good scientist or doctor can be earning $350,000 a year. It is absolutely frightening. That is what sequestration does. It hits the good with the bad.

Chairman DERRICK. Mr. Pashayan.

Mr. PASHAYAN. I have no questions except to comment on whether the gentleman takes as accurate aim in this room as he does on the hunting field.

Mr. SOLOMON. Silvio Conte does not have a Boston accent, Mr. Chairman. I don't know what you call it, but his district borders mine up there.

Silvio, with the armored cars, do you want to lock him up and take them down? Let's put the money in the armored car and take it with them.

Mr. CONTE. I mention that only because there is always somebody who is going to talk. I remember those 30 days we spent in that summit. The news media was waiting outside in the hall. Somebody will go out there and blab and it only takes one person. You have to have complete unanimity in those summits. You have to have complete unanimity and, if you don't, the whole thing unravels. That is why you have to bring them all down to the White House and have everybody in lock step on the issue.

Mr. **Solomon**. I appreciate it.

Chairman **Derrick**. Thank you very much. That was an excellent testimony.

Thank you for taking the time.

Now we will hear from the distinguished member of the Banking Committee, the Honorable Charles E. Schumer, Chairman of the House Budget Committee's Task Force on Urgent Fiscal Issues.

We would be delighted to hear from you. We would be glad to listen to any testimony you want to give us. We would strongly encourage that you summarize.

STATEMENT OF HON. CHARLES E. SCHUMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Schumer**. Mr. Chairman, I always accept your strong encouragement. I would ask that my statement be placed in the record and I will not read it but rather just tell you the reason I am here.

I have worked pretty hard on one portion of H.R. 3929, Mr. Panetta's bill, which is credit reform. I think if anything has become clear in the last few years, it is that the credit part of our budget is strongly out of whack, and quite frankly now we are going to have to pay the piper.

With loan guarantees, there is no budget hit. Every committee whether they be authorizing or appropriating or anything in between figures, if we can't find money for either direct funding or direct loans, we will put in a loan guarantee and there is no budget hit. The basic problem arises when the guarantee doesn't work. If it is free, everyone does it, and it takes a great deal of time before the costs accrue to the Federal Government, but they do. We have had two huge financial scandals in the last year. One is the savings and loan scandals. I submit if every time Uncle Sam gave insurance to the thrift or bank, there was a budget hit—my colleague says budget picky—there would be a lot less incentive to just give away the guarantees without any oversight, without looking at who gets them or who gets the money.

Similarly, a huge scandal in the Federal Housing Administration, costing us billions and billions of dollars. You can give out a guarantee in this government right now without anybody paying for it. We just don't look and see if the guarantee is the right way to go. We allow the guarantee to be used in all sorts of ways we would not want it used if we knew its true cost.

In the Banking Committee alone, we are seeing huge problems because we don't do something with the guarantees.

The other body has made more progress than we. The Senate passed a credit reform bill but the problem was there are basically five parties you need agreement for as to how it is to be worked out. You need the GAO, CBO, Senate Budget Committee, House

Budget Committee and, of course, OMB to all agree. I have been working with all five parties. In fact, the Task Force on the Budget Committee I chair on Urgent Fiscal Issues is going to be having a hearing very, very shortly. We have come to a basic agreement on how this should work. The time is right for credit reform both because there is this general agreement and also because we have seen the price of giving away guarantees unfettered without any budgetary costs recorded.

I would urge this committee to strongly consider seeing that whenever we give away a loan guarantee or direct loan that we pay some small cost like any private entity would do, whether it be an insurance company or anything else.

That is really my summary statement. My staff has written a far better statement but it is longer and in the interest of brevity, I will submit that for the record. I want to assure them it is their work that will follow you through the decade while my trifling words will be forgotten in a few minutes.

[Mr. Schumer's prepared statement follows:]

PREPARED STATEMENT OF HON. CHARLES E. SCHUMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Thank you Mr. Chairman and members of the subcommittee for this opportunity to address the credit reform proposal contained in H.R. 3929.

Over the last 25 years, outstanding Federal direct and guaranteed loans and Federal insurance have grown faster than the budget as a whole. Not nearly enough attention has been paid to the serious financial risk posed by this enormous growth and the skyrocketing losses in many of the government's credit and insurance programs. Although we have treated them as such, government loan programs are by no means cost-free. We must recognize this truth before we have to pay the piper more taxpayer dollars than we already have.

The need for credit reform became clear to me in my role as chairman of the Budget Committee's task force on Urgent Fiscal Issues. During the Task Force's examination of two recent fiscal crises, the insolvency of the Federal Savings and Loan Insurance Corporation (FSLIC) and the dramatic increases in losses in the Federal Housing Administration's (FHA) insurance funds, I became aware of how much our current accounting for Federal credit and insurance contributes to the ultimate costs of these crises.

I have no doubt that reforming the accounting of credit and deposit insurance will lead to better decisionmaking about these types of programs, reduce the cost of any future crisis, and eliminate incentives to play budget games with future crises.

The cash-flow accounting now used in the Federal budget veils the real cost of Federal credit and insurance programs. This problem was identified as far back as the 1967 President's Commission on Budget Concepts. The costs of direct loans and spending are greatly overstated in current year figures. An outlay is recorded when loans or other payments are made; but these payments are offset by future receipts in the form of loan repayments and/or sales of assets acquired from defaulted borrowers and financial institutions. In contrast, the costs of new loan guarantees and deposit insurance are understated in the current year because no outlay is recorded until default or insurance payments are acquired, sometimes many years in the future.

Indeed, because of guarantee fees and insurance premiums, now loan guarantees and expanded deposit insurance coverage can appear to *reduce* the deficit in the short run. For this reason, loan guarantees have grown faster than any other forms of assistance over recent years. Further, with cash-flow accounting, the time lags between the payment and receipt transactions in insurance and credit programs create an opportunity to use optimistic assumptions about the timing of future cash flows to project smaller future deficits than are realistic or likely.

Section 202 of H.R. 3929 would require that Federal credit assistance to be reflected in the budget on the basis of their estimated net cost to the Government rather than their cash flow from one fiscal year to the next. The net cost or net "subsidy" of these programs is defined as the net present value of the difference between the estimated disbursements of these programs, and any receipts that flow to the Government such as fees, repayments, and recoveries from acquired assets.

The proposal further requires that, except for mandatory credit programs and deposit insurance, the annual program "cost" must be appropriated before new direct loans or loan guarantees may be made by agencies. All of the non-subsidy transactions in these programs are defined as a "means of financing" the budget and would be excluded from calculations of the deficit. H.R. 3929 also provides that Congress will use CBO estimates of costs and the administration will use OMB estimates.

Although it differs in some details, the credit reform proposal in H.R. 3929 is very similar to the credit reform proposal endorsed by the Bush administration, and to the credit reform plan included in the 1987 Senate-passed version of Gramm-Rudman II, which was dropped in conference. These differences reflect refinements which we believe will enhance the comparison of credit programs with grant programs and will preserve the institutional prerogatives of the Appropriations Committee and the Congress as a whole.

It is time for Congress to pass credit reform legislation. Along with the administration, the Senate Budget Committee, the Congressional Budget Office and the General Accounting Office also support credit reform. It does represent a significant change in the way we treat credit programs and deposit insurance and therefore much educating will have to be done. From my own experience, I know that the more one learns about credit reform, the more one realizes how important and beneficial it is.

In short, credit reform would significantly improve the accuracy of the Federal budget as a measure of the fiscal and economic impact of the Government; it will put loan programs and deposit insurance on a comparable basis to grants, purchases, and other Federal expenditures and will eliminate the current bias in favor of loan guarantees; it will eliminate the incentive to use optimistic assumptions about the timing of future payments and receipts to support unrealistic deficit projections.

Finally, credit reform will simplify the budget process and provide more flexibility to the Appropriations Committee by eliminating the existing separate targets for spending and credit programs levels. The single accounting concept under credit reform will allow the appropriations process to make tradeoffs among grants, loans, and other purchases they cannot now make.

Support for credit reform is growing as its benefits become more widely known and as improvements are made in its design. I am confident that it will be a key component of any revision to the budget process Congress might make this year. Thank you.

Chairman DERRICK. Nothing you ever say will be trifling. I could not agree with you more. Back in the early days with the Budget Committee you worked on that and tried to do something about it and there has been a swat over the years. I was not aware of the hickey, the little premium or something. You have to do something to make it hurt just a little. That is a good idea.

Do you have any other comments on the Panetta bill?

Mr. SCHUMER. This is one of those instances where I am just sticking to this portion of the bill and hopefully it will pass. This is going to create some controversy, I feel, with some of my colleagues on the Appropriations Committee. Some would rather not see that hickey taken. I think it is the right thing to do. The Senate is very enthusiastic about this. I would hope one way or the other, this kind of proposal passes. I feel if we don't do it this year, two things will happen. We won't do it next year. We have now realized, because of the enormity of the S&L crisis we will be paying more and more.

Chairman DERRICK. Do you have any idea of our total obligations?

Mr. SCHUMER. The loan guarantees are the fastest growing part of the Federal Government.

Guarantees in insurance is about $5 trillion.

Chairman DERRICK. Mr. Solomon.

Mr. SOLOMON. I just want to thank you, Chuck. You really hit the nail on the head. The Senate seems to be going in the right direction; we are not and we should be. We should really work together, liberals and conservatives alike. We could do something and we should do it; I will read your testimony.

Mr. SCHUMER. Thank you. OMB is onboard on there and so are the various budget committees so I think we have a real chance to do it.

Chairman DERRICK. Thank you very much.

Our last witness is the Honorable Gerald Solomon. That means you get to talk to me.

Mr. SOLOMON. Mr. Chairman, let me spare you the agony.

Chairman DERRICK. Give me your testimony and I will read it.

Mr. SOLOMON. You were good enough to allow me to participate as a member of the full committee in this subcommittee hearing, during which time I had the opportunity to say most of what I wanted to say. So let me submit my written testimony for the record and just say that my concerns in this piece of legislation are the repeal of Gramm-Rudman and the repeal of sequestration. In my opinion, we should at least try to reform the budget process. Mr. Panetta's bill does this, but, at the same time, we ought to minimize the opportunities for dodging our obligations that exist in the present system. Really, those obligations are there, and I think everybody here has testified that there is a way of getting around them. There shouldn't be; we should hold ourselves responsible. With that, let me submit my written statement.

Chairman DERRICK. Without objection, it is so ordered.

[Mr. Solomon's statement, as though read, follows:]

STATEMENT OF HON. GERALD B.H. SOLOMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SOLOMON. I appreciate this opportunity to appear before you and to express my concerns about H.R. 3929. It is my hope that this hearing will represent the beginning of a comprehensive examination of the congressional budget process. There is certainly no shortage of bills dealing with that subject.

Be that as it may, and with all due respect for Chairman Penetta, I must speak in opposition to his bill. I do so because H.R. 3929 fails to address the major flaw in the congressional budget process, which is Congress itself.

To paraphrase Shakespeare, the fault is not in the system or in the process—but in ourselves. And if a sudden transformation of human nature is too much to ask for, I believe we should at least try to reform the budget process so as to minimize the opportunities for dodging our obligations that exist in the present system.

To its credit, H.R. 3929 eliminates much of the bookkeeping gimmickry that masks the true size of the deficits. But this positive contribution is negated by the flexibility that would be introduced with respect to setting an annual deficit target.

The current Gramm/Rudman/Hollings law presents Congress with a definitive deficit target every year—a deficit target that gets smaller each succeeding year. But H.R. 3929, as I understand it, proposes to replace the scale of diminishing deficit targets in

Gramm/Rudman/Hollings with a flexible approach that virtually guarantees the establishment of higher deficit targets than would presently be allowed.

The new flexibility proposed by H.R. 3929 looks to be even more elastic when one notices that the enforcement mechanism for meeting deficit targets is reliance on points of order. In my maiden speech as a member of the Rules Committee, I noted that the committee "now spends most of its time writing exemptions to House Rules and issuing budget waivers."

I would expect the committee to do an awful lot more of that if H.R. 3929 ever becomes law. Waivers against points of order on the Budget Act are a way of life now; H.R. 3929 is not going to make it any different.

The issue of enforcement is central to the whole budget process. And it gets to the heart of my opposition to H.R. 3929: this bill does away with sequestration, the one element of real discipline the present system imposes on us.

I cannot emphasize this point strongly enough. However many loopholes in Gramm/Rudman/Hollings may have been opened by Congress over the past 4 years, the deficit would not have been lowered at all if not for sequestration. This is the one threat—the one discipline—that we have.

I know it will be argued that even sequestration has not proven to be a sufficient instrument in forcing Congress to rationalize the budget process. But that is my point. If sequestration with all of its pain and unfairness cannot force us to fulfill our public obligations responsibly, what will?

Congress is an organism with a seemingly unlimited capacity for mutation. It can adjust to virtually anything that threatens its comfortable routine of "business-as-usual." If that is even the case with something so menacing as sequestration, what can be expected with something as flexible as H.R. 3929?

As our good colleague, Lynn Martin, has noted, this bill is not so much "pay-as-you-go" as it is "pray-as-you-go." And I would also note that the administration has declared its intention to veto any bill that repeals sequestration.

Mr. Chairman, I have a couple of other objections to this bill. There is no need to belabor the points, but I would like to touch each one at least briefly.

First, H.R. 3929, if enacted, is very likely to complicate the reconciliation phase of the budget process by intensifying the conflict that already exists between the different committees of Congress. And does anyone really believe the timetable outlined in H.R. 3929 can be met? What kind of heretofore unknown discipline is this House going to muster in order to have all appropriate bills completed by June 30? And to complete reconciliation by August 5?

Assuming we could meet those deadlines, what about the Senate? H.R. 3929, it seems to me, is predicated on some large assumptions about congressional behavior, assumptions that are by no means justified on the basis of recent history.

Second, I am very concerned about a shift in emphasis that is proposed by H.R. 3929. At present, Gramm/Rudman/Hollings stresses reductions in spending as being the route toward a balanced budget. H.R. 3929, on the other hand, would add the prospect of tax increases into the mix.

The idea of using tax increases to reduce the deficit is a sadly mistaken notion. All experience has shown that the psychology governing the budget process, such as it is, changes dramatically when new revenues are in sight.

The indispensable element in any deficit reduction strategy must be restraints of spending. But this is precisely what tax increases do not encourage. In fact, the record for the entire post-World War period shows that every dollar in new Federal taxation has been matched by $1.60 in new Federal spending.

In summary, Mr. Chairman, I believe H.R. 3929 is not the vehicle on which to base a deficit reduction strategy in the 1990's. This bill is fraught with ambiguities, loopholes, and mistaken assumptions. If Congress is ever to get the deficits under control, we must discipline ourselves most of all—and the rest will follow as a matter of course.

Chairman DERRICK. Thank you.

We will be here at 9:30 in the morning. We would encourage you to join us. We are going to have some distinguished outside civilian witnesses outside the Congress.

The committee is adjourned until 9:30 tomorrow morning. Thank you all for coming.

[The subcommittee was adjourned at 4:25 p.m. to reconvene at 9.30 a.m., Wednesday, March 21, 1990.].

H.R. 3929, THE BUDGET PROCESS REFORM ACT OF 1990

WEDNESDAY, MARCH 21, 1990

House of Representatives,
Subcommittee on the Legislative Process,
Committee on Rules,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room H-313, the Capitol, Hon. Butler Derrick (chairman of the subcommittee) presiding.

Present: Representatives Derrick, Wheat, Gordon, and Martin.

OPENING STATEMENT OF HON. BUTLER DERRICK, CHAIRMAN OF THE SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Chairman **Derrick**. We will get started this morning. We had a very interesting hearing yesterday afternoon and had about four or five Members of the Congress testify before us. I think they will be readily recognizable as some of the brighter Members of the Congress, certainly those that are concerned with these matters.

We are going to hear from three distinguished experts here this morning. I normally say an expert is someone who is 50 miles from home.

We will first hear from Dr. Louis Fisher, senior specialist in American National Government, Congressional Research Service, Library of Congress.

We thank you very much for taking your time to come over and be with us.

Dr. Fisher.

STATEMENT OF LOUIS FISHER, SENIOR SPECIALIST IN AMERICAN NATIONAL GOVERNMENT, CONGRESSIONAL RESEARCH SERVICE, LIBRARY OF CONGRESS

Dr. **Fisher**. Thank you.

My paper is a little different and I will summarize. It will only take me a few minutes to hit the main points.

I do not get into budget details and technicalities. Instead, I look at the process in terms of what Congress, in terms of its institutional strengths, can do well and the same with the President.

We often say when you adopt a Constitution, it is supposed to fit your culture. I think the same is true of a budget process. It should fit the strengths of each institution.

I think the process we have had for a number of years does not do that well. Instead of putting on new layers of technicalities, we ought to go back and see what Congress can do well, what the President can do well, and how they can cooperate in an effective manner.

My testimony first goes back and looks at the Budget and Accounting Act of 1921; not to go back into history, but I think at that time a great deal of attention was placed on the constitutional and institutional framework. When they looked at budget reform at that time, they wanted to pick a process that would be workable, one that would call from the President his special strengths and then look to Congress for its special strengths. I think the bargain was a good one. What did they expect of the President? I would like to read the sentences from the House report at that time that looked into budget reform.

When they saw the disarray in budget reform, they felt that there was a need to place responsibility. When they looked at the institutions of government, the place for responsibility in submitting a budget, proposing a budget, making the recommendation, they thought should be placed on the President.

This is the language from the House report, 1919.

> In the National Government there can be no question but that the officer upon whom should be placed this responsibility is the President of the United States. He is the only officer who is superior to the heads of departments and independent establishments. He is the only officer of the administrative branch who is interested in the Government as a whole rather than in one particular part. He is the only administrative officer who is elected by the people and thus can be held politically responsible for his actions. Furthermore, as head of the administration it is to him that Congress and the people should look for a clear and definite statement of what provision in his opinion should be made for the revenue and expenditure needs of the Government.

In the Budget and Accounting Act of 1921, there is language that when the President makes recommendations to Congress, it is the recommendation "in his judgment." So the expectation at that time was that the President would take personal responsibility for presenting to Congress a budget in his judgment that he thought met the needs of the country.

The argument in my testimony is that, perhaps unwittingly, the Budget Act of 1974 undermines that sense of Presidential responsibility and leadership; Gramm-Rudman has made the situation worse.

Part of the problem is that in 1921, you had one budget and it was easy to measure what Congress did, whether you were above the President's budget or below the President's budget. After 1974, we had multiple budgets. We had a President's budget, a House budget, a Senate budget; we used to have the first budget resolution, the second, the second revised. So the public and the press and the Members are very confused as to who makes the budget, who is responsible, who is accountable.

You even had the point reached in 1983 where the majority leader at that time for the House, Jim Wright, was asked on the floor whether a particular appropriations bill was above budget or below budget. He said it was below budget. He explained it was below the budget resolution, although it was above the President's budget.

Then he said: "Now they may be in excess of certain amounts requested by the President in his budget request of last January.

But that, of course, is not the budget. Congress makes the budget; the President does not."

When there is that conception, I think there is a green light or an invitation to a President, not a requirement, but a green light, to step back and tell Congress: "Go ahead, you figure it out. You say you make the budget. I don't have any personal responsibility that was expected of me from 1921 on."

That shifts the formulation of the budget to Congress. I would argue that Congress can do very well and has always done very well at the bill-passing stage; that is, taking a responsible budget, altering the priorities, shifting from one program to another. Congress does that well.

I don't think, institutionally, Congress is in a position to pass appropriations bills and tax measures and authorization bills and also formulate a budget. Certainly, it is not in the position to be held institutionally accountable by the public.

There is no center in Congress, even though some of the reforms of 1974 meant to centralize the Congress. That leads me to another section of my paper where I argue that although the 1974 Act has generally weakened Presidential responsibility for the budget, under very special conditions, and we had them in 1981, it can strengthen the hand of the President by giving him a central vehicle, the budget resolution. If a President can gain control of the budget resolution, as President Reagan did in 1981, he then can set priorities for defense buildup, tax cuts, and some domestic retrenchment.

Once a President gains control of the budget resolution, that sends out the signals for what you do during the rest of the legislative process.

I think a strong case can be made that we probably would not have made the fiscal mistake in 1981 with the decentralized procedure that existed before 1974, and I quote from some people like Allen Schick and Rudy Penner, that it probably is the case that the mistake made in 1981 was partly a result of Congress, for the first time, having a centralized process that a President could gain control of and dictate a very radical supply-side economics that led to the deficits we have today.

Gramm-Rudman has further undermined Presidential responsibility in the sense that, by statute, the President is required to put certain numbers in his budget. When I testified in 1985 on Gramm-Rudman, I raised that as a constitutional problem. Up until then there had been the expectation that a President is supposed to present a budget in his judgment. Now it is not a budget in his judgment. It is a budget dictated in part by a statute that tells him from year to year what deficit number to put in. I think there are not only serious constitutional questions to that, but institutional objections as well.

Gramm-Rudman has the additional deficiency of giving the public the impression that something is being done about deficit reduction, although most observers know that very little is being done about deficit reduction. The situation would be better, I think, if Gramm-Rudman were repealed because you would put the full political pressure on both of the branches to confront the situation as it is and do whatever is necessary.

I do have a problem with the bill before us on "pay-as-you-go." It seems to me if you repeal Gramm-Rudman—take out some fixed statutory procedure and, therefore, put pressure on the two political branches to address reality—that in a way you are reintroducing the same problem: the pay-as-you-go formula. I can understand the political needs to have a formula, but I would feel more comfortable if we just left it to the two branches to operate through the political process and their political leaders.

I end with a controversial suggestion. If you really want to put pressure on the President to take responsibility, so that there is only one budget, I think the only way you can do that is to repeal the budget resolution and make it clear to the Nation and to the public and to the press that there is responsibility in the country, as there was in 1921, for one person to present a budget and take responsibility for it, and that is the President. Then, of course, Congress has full freedom once the budget comes to Capitol Hill, to change it any way Congress wants.

Would this open the door to more spending? I don't think you could support that from our history. Whatever the dynamics are, the history suggests that the aggregate you end up with in terms of total outlays and total deficit, other numbers like that, basically are what the President presents. Congress over the decades generally lives within those aggregates and then makes all the priority adjustments Congress wants to.

So that is where I come out. I would like to place more reliance and confidence on the political process than we have and not hamper it and interfere with that process and those political decisions through rigid statutory formulas.

[Dr. Fisher's prepared statement, with attachment, follow:]

TESTIMONY OF LOUIS FISHER,
CONGRESSIONAL RESEARCH SERVICE,
HEARINGS ON THE BUDGET PROCESS,
HOUSE COMMITTEE ON RULES,
MARCH 21, 1990

Mr. Chairman, I appreciate the opportunity to testify on the Budget Process Reform Act (H.R. 3929), which would repeal Gramm-Rudman-Hollings and replace it with a Pay-As-You-Go formula. I think your hearings are very significant because they address questions that go beyond narrow procedural and technical issues. You have expressed an interest in broad institutional and constitutional questions, especially the relationship between Congress and the President and the duties that should be discharged by those branches. My testimony builds on the following points:

1. The political process relies on the President to play a central role in taking *personal* responsibility for submitting a budget; that was the basic purpose of the Budget and Accounting Act of 1921;

2. If Congress receives from the President a budget which presents responsible totals for aggregates (especially total spending and the level of the deficit), the historical record demonstrates that Congress will generally live within those aggregates while rearranging the priorities;

3. Presidential accountability has been eroded by the Budget Act of 1974 and the Gramm-Rudman-Hollings Acts of 1985 and 1987; if the President fails to supply leadership, Congress is institutionally and politically unlikely to fill the vacuum;

4. Changes in the budget process should take advantage of the institutional *strengths* of Congress and the President; the process since 1974 feeds on institutional weaknesses.

5. The process since 1974 has encouraged the phenomenal budget deficits of the past decade and discourages efforts to deal with them; in fact, the process provides incentives for regular and deliberate deception by both branches.

6. If we construct a budget process that exploits institutional assets inherent in the President and Congress, we would not need statutory mandates (as with GRH) or the extraordinary procedural innovations proposed in recent years (sequestration, capital budgeting, biennial budgeting, balanced budget amendments, line-item veto, etc.).

The Concept of Presidential Responsibility

Throughout the nineteenth century there was little need of an elaborate budget process or explicit responsibility from the President. Customs revenues usually covered the modest federal expenditures. There were even periods of budget surplus when excess funds were used first to liquidate the national debt and later to distribute funds to the states.

Under the pressure of mounting deficits at the end of the nineteenth century and the early twentieth century, Congress established committees and commissions to recommend more efficient practices by executive agencies. President Taft established one of these commissions, and it recommended that the President be made responsible for reviewing departmental estimates and organizing them to form a coherent document to be presented to Congress. Nothing came of this reform during Taft's administration, but it set the stage for the Budget and Accounting Act of 1921.[1]

The heavy costs of World War I precipitated the move to a modern budget system by the national government. Federal spending climbed from about $700 million before the war to $12.7 billion by 1918 and to $18.5 billion by 1919. The national debt, which stood at about one billion dollars in 1916, leaped to over $25 billion by 1919. To manage debts of this magnitude, members of Congress realized that new powers would have to be delegated to the President.

It is interesting to review the attitudes within Congress at that time. The House Select Committee on the Budget explained that its purpose was to determine "not what was theoretically desirable, but rather to determine what was practically feasible, keeping in mind at all times that to it had been committed the problem of recommending a system that would be in complete harmony with our constitutional form of government."[2]

To accomplish that task, the Committee had to carefully examine the institutional strengths of both branches and how they could coordinate their efforts most effectively. It condemned the lack of accountability in the executive branch:

> Practically everyone familiar with its workings agrees that its failure lies in the fact that no one is made responsible for the extravagance. The estimates are a patchwork and not a structure. As a result, a great deal of the time of the committees of Congress is taken up in exploding the visionary schemes of bureau chiefs for which no administration would be willing to stand responsible.[3]

The Committee concluded that responsibility would have to be concentrated in the President. The only way to secure economy and efficiency in the expenditure of funds would be by placing "definite responsibility upon some officer of the Government to receive the requests for funds as originally formulated by bureau and departmental chiefs and subjecting them to that scrutiny, revision, and correlation that has been described."[4] And here the Committee reaches a judgment that was soundly based on constitutional and institutional considerations:

> In the National Government there can be no question but that the officer upon whom should be placed this responsibility is the President of the United States. He is the only officer who is superior to the heads of departments and independent establishments. He is the only officer of the administrative branch who is interested in the Government as a whole rather than in one particular part. He is the only administrative officer who is elected by the people and thus can be held politically responsible for his actions. Furthermore, as head of the administration it is to him that Congress and the people should look for a clear and definite statement of what provision in his opinion should be made for the revenue and expenditure needs of the Government. The requirement that the President shall prepare and submit to Congress annually upon its convening in regular session a budget will thus definitely locate upon him responsibility for the formulation and recommendation of a financial and work program for the year to ensue.[5]

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[1] For further details on Taft's initiatives and the record of the nineteenth century, see Louis Fisher, Presidential Spending Power 9-31 (1975).

[2] H. Rept. No. 362, 66th Cong., 1st Sess. 1 (1919).

[3] Id. at 4.

[4] Id. at 5.

[5] Id. at 5-6.

In fixing responsibility on the President, the Committee did not intend to subordinate Congress to the executive branch. Some of the budget reformers of that time wanted to copy the British parliamentary model by concentrating power in the executive and prohibiting legislators from adding funds to the President's budget. For example, it was suggested that members of Congress could add to the President's budget only by securing a two-thirds majority in each House or by obtaining the permission of the Secretary of the Treasury.[6]

This model of government was decisively rejected by the House Select Committee on the Budget. The budget was to be executive only in the sense that the President was responsible for the estimates submitted. It was legislative from that point on; Congress retained full power to increase or reduce the President's estimates.[7] The proposed reform was not meant to "impair either the authority or the responsibility of Congress."[8]

With regard to the concept of presidential responsibility for submitting a budget, notice the language of the Budget and Accounting Act of 1921. The President was directed to transmit to Congress a budget which shall set forth, in summary and in detail, estimates of expenditures and appropriations necessary "in his judgment" for the support of government.[9] This notion of personal judgment is integral to an executive budget. I will argue later that it has been undermined significantly by congressional statutes, particularly Gramm-Rudman-Hollings, but also indirectly by the Budget Act of 1974.

The Decline of Presidential Responsibility After 1974

I think it is accurate to say that the institutional assignments to Congress and the President under the 1921 statute worked fairly well. Even during the Nixon administration, when executive officials accused Congress of being "spendthrift" and operating on a national credit card,[10] the record does not support this charge of legislative irresponsibility. From fiscal 1969 through fiscal 1973, appropriations bills passed by Congress were $30.9 billion below Nixon's requests. Over that same five-year period, backdoor spending and mandatory entitlements exceeded his budgets by $30.4 billion.[11] In terms of budget aggregates, the figures were pretty much even. Through its own informal and decentralized system, including the "scorekeeping reports" prepared by legislative staff, Congress stayed within the totals proposed by Nixon. Congress was able to adhere to the President's totals while significantly altering his priorities.[12]

If the system worked that well, you may ask why Congress bothered to pass the Budget Act of 1974. Of course many parts of the budgetary process were not working well. As indicated in the paragraph above, there were serious concerns about the growth of backdoor spending (contract authority and borrowing authority) and the growth in mandatory entitlements. The unprecedented use of impoundment authority by the Nixon administration triggered a monumental confrontation between the two branches.[13] Deficits were growing, although they seem insignificant when compared with current levels, and the appearance of inflation (supposedly caused by those deficits) convinced policymakers that the budget process needed fundamental reform.

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[6] Louis Fisher, Constitutional Conflicts between Congress and the President 232-233 (1985).

[7] Id. at 7, 9-10.

[8] S. Rept. No. 524, 66th Cong., 2d Sess. 4 (1920).

[9] 42 Stat. 20, § 201(a) (1921).

[10] Louis Fisher, The Politics of Shared Power 58-59 (1987).

[11] H. Rept. No. 147, 93d Cong., 1st Sess. 39 (1973).

[12] See also Paul E. Peterson, "The New Politics of Deficits," in John E. Chubb and Paul E. Peterson, eds., The New Direction in American Politics 375 (1985).

I understand the reasons that created the demand for budget reform in 1974. As a staff member of CRS, I gave considerable assistance to different titles of the Budget Act of 1974. The issue that interests me now is whether the statute of 1974 reconciled the institutional and constitutional responsibilities of Congress and the President as well as the Budget and Accounting Act of 1921. If it failed in that respect, the fault is of crucial importance, no matter how sophisticated, fascinating, and impressive the technical details of the 1974 statute might be. Recall that in 1919 the House Select Committee on the Budget wanted to propose a budgetary system "in complete harmony with our constitutional form of government." In many respects I think the 1974 statute fails that test.

First, I don't think anyone in the 1973-74 period thought through the full dynamics of budget reform. If Congress strengthened its role in the budget process, would that weaken the input from the executive branch, particularly the leadership required of the President? There is no necessary cause and effect. Nothing in the 1974 statute prevents the President from vigorously discharging his responsibilities for submitting a budget. But I think the 1974 legislation had the effect of obscuring presidential responsibility.

For one thing, the nation now had not one budget but two: a presidential budget and a congressional budget. And the congressional budget was not one but several: the first budget resolution, followed by a second budget resolution, followed by a second budget resolution revised. Budgets constantly shifted to reflect changing baselines, reestimates, and updates. The phrases "below budget" and "above budget" no longer had meaning. The country lost a visible benchmark -- the President's budget -- which would be the reference point to measure congressional actions. Individual Members, congressional groups, and outside interests also prepared their own national budgets to add to the fiscal cacophony.

The result was that the public, and the press, had a more difficult time keeping the two branches accountable. Consider the debate in the House of Representatives in 1983, when members asked whether the pending bill was below budget or above budget. Congressman Jim Wright, as House Majority Leader, gave this response:

> . . . This bill is not over the budget; the amounts proposed in this amendment are well within the budgeted figures. The amounts that we have agreed to and have discussed are not in excess of the congressional budget resolution. That, of course, is the budget.
>
> Now they may be in excess of certain amounts requested by the President in his budget request of last January. But that, of course, is not the budget. Congress makes the budget; the President does not.[14]

This interpretation of the 1974 statute obviously parts company with the principles of the Budget and Accounting Act. The framers of the 1921 statute jealously guarded congressional prerogatives, in the sense of giving Congress full freedom to increase or decrease the President's estimates, but at the same time they wanted to fix personal responsibility on the President to submit a national budget. They believed that presidential leadership -- and accountability -- was essential to the effective performance of Congress in discharging its assigned tasks.

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[13] Supra note 1, at 147-201.

[14] 129 Cong. Rec. 25417 (1983).

The confusion of multiple budgets produces substantial costs to democratic government. Neither the President nor Congress can be held publicly accountable for the national budget. Both branches and both parties practice the "politics of blamesmanship" to attack each other's fiscal irresponsibility. Observing this crossfire, voters cannot fix responsibility. Instead of staying within the President's aggregates, members of Congress can raise the ceilings in a budget resolution and then announce to their constituents that they have "stayed within the budget." This convention has been adopted even by Presidents. In 1985, President Reagan announced that he "would accept appropriations bills, even if above my budget, that were within the limits set by Congress' own budget resolution."[15]

There is a high price to be paid when a legislative process becomes complicated and confusing. Public accountability suffers. Congressman John Dingell noted in 1984: "What we have done over the past decade is to create a budget process that is so complex as to be incomprehensible to almost everyone. Most of the Members do not understand it beyond a superficial level. The press does not understand it. The business community does not understand it. The financial community does not understand it. And most important of all, the public does not understand it."[16]

Members of both branches have concluded that not only is the budget process confusing but that the confusion is meant to deceive the public. Congressman David Obey, a member of the House Appropriations Committee, offered this assessment in 1982: "under the existing conditions the only kind of budget resolution you can pass today is one that lies. We did it under Carter, we have done it under Reagan, and we are going to do it under every President for as long as any of us are here, unless we change the system, because you cannot get Members under the existing system to face up to what the real numbers do. You always end up having phony economic assumptions and all kinds of phony numbers on estimating."[17] After 1974, budgets submitted by Presidents and budget resolutions passed by Congress were chronically unreliable, regularly underestimating outlays and overestimating revenues. The result, year after year, were deficits far beyond presidential and congressional projections.[18]

The decline in presidential responsibility for submitting budget estimates has been dramatic. After forcing major changes in tax rates, defense spending, and domestic programs in 1981 (to be discussed in the next section), President Reagan's subsequent budgets were largely ignored by both Houses. He remained a player, by opposing tax increases and any defense cutbacks, but he did not appear willing to present a budget and defend it personally. He seemed to shift the responsibility for budget preparation and deficit reduction to the legislative branch. Congress (including the Republican Senate) accepted this assignment and did what it could, but voters cannot hold accountable an inherently decentralized legislative body in the same way it can fix responsibility on a single President.

The decline in presidential leadership for the national budget appears to continue in the Bush administration. Instead of President Bush taking personal responsibility for the budget, matters were delegated to OMB Director Richard Darman in 1989 to negotiate a bipartisan strategy with Congress. When that fell through, the blame seemed to rest on the OMB Director, not the President. Such tactics spare the President, of course, but the purpose of the 1921 statute was not to spare the President. It was to make him, not the budget director, legally and personally responsible for dealing with the budget. The President's budget this year seems to underscore the Director's role even more. President Bush receives one page for his message to Congress. The OMB Director takes 15 pages to offer his views. The OMB Director should be operating under the President's shadow, not vice versa. Of all the twentieth century duties expected of the President, who is elected by all the people and accountable to them, the budget is one of his most fundamental responsibilities.

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[15] Public Papers of the Presidents, 1985 (II), at 1401.

[16] "Congressional Budget Process" (Part 3), hearings before the House Committee on Rules, 98th Cong., 2d Sess. 161 (1984).

[17] "Congressional Budget Process," hearings before the House Committee on Rules, 97th Cong., 2d Sess. 239 (1982).

[18] Louis Fisher, "Ten Years of the Budget Act: Still Searching for Controls," 5 Public Budgeting & Finance 3, 4-9 (1985).

Budget Action in 1981 and Resulting Deficits

What I say now will seem to contradict part of what I said earlier. Although I think that the 1974 statute has had the general effect of weakening the President's budget, under special conditions it can strengthen it. And those special conditions appeared in 1981.

The budget resolution required under the 1974 statute was praised because it is a vehicle for centralized, systematic, and coherent legislative action. It was a premise of the 1974 statute that Members of Congress would behave more responsibly if they had to vote explicitly on budget aggregates and face up to totals, rather than voting piecemeal on separate appropriations and legislative bills. In 1974, as now, it was difficult to defend fragmentation, splintering, and decentralization when reformers pressed eagerly for "coordination" and a "unified budget process."

The model of the executive budget looked appealing. The Budget and Accounting Act assumed that presidential control and responsibility would be enhanced by centralizing the budget process in the executive branch. Does it follow that those advantages can be transferred to Congress? Is Congress strengthened by having its own budget?

There are substantial risks when Congress, possessing different institutional qualities, tries to emulate the executive branch. The President heads the executive branch, fortified by a central budget officer. There is no head in Congress, which is inherently decentralized between two Houses, two political parties, and a variety of committees and subcommittees. Congress could create a Congressional Budget Office, but it could never have the same institutional role as the Office of Management and Budget. The executive branch is largely hierarchical. No such quality applies to Congress, which is essentially collegial in its operations.

Given the right President and the right time, the budget resolution could be used to advance not congressional goals but rather a President's agenda. That is what happened in 1981. President Reagan had the votes to gain control over the budget resolution in both Houses. The budget resolution became the blueprint for enforcing the President's priorities for a tax cut, defense buildup, and retrenchment of domestic programs. Once the White House gained control of the budget resolution, which announced the general budget policy, subsequent action on the tax bill, appropriations bills, and the reconcilation bill became the necessary steps to implement the White House policy. When the general theory of supply-side economics failed to generate predicted revenues, the nation faced budget deficits of $150 billion to $200 billion a year. When President Reagan entered office the national debt was approximately one trillion dollars. It is now about three trillion dollars.

Would the actions in 1981 have happened without the availability of a budget resolution? Possibly so. I think it is more likely that President Reagan could not have enacted his radical, supply-side economics with the pre-1974 budgetary process. His program would have most likely been chopped to bits by successive committee and subcommittee action. The budget resolution gave him the centralizing vehicle he needed.

Rudolph Penner, as the Director of CBO in 1985, asked: "Would the dramatic actions of 1981 have been possible without the process? It is a question that no one will ever be able to answer with certainty. I believe, however, that it would have been difficult to achieve these results using the old, muddled way of formulating budgets."[19] Penner concluded that Reagan's objectives would have been much harder to achieve had he been forced to negotiate with the decentralized power structure that existed in Congress before 1974. Allen Schick makes a similar point:

> Historically, the president has been at a disadvantage vis-a-vis Congress in their periodic budget conflicts. Congress excels as an institution that fragments issues and avoids decisions on overall objectives. Before installation of the congressional budget process, this fragmented behavior characterized legislative consideration of the president's budget. Appropriations were splintered into more than a dozen bills, tax legislation was walled off from spending decisions, and Congress did not have to vote on the totals. Members were able to profess support for the president's objectives while "nickel and diming" the budget in their action on appropriations and other spending measures.[20]

The radical change in budgetary policy in 1981 brought about an explosion in budget deficits. It is highly unlikely that an error of that magnitude could have occurred with the decentralized process that existed before 1974. The incrementalism of that process operated as a brake on radical shifts.

The Budget Act of 1974 strengthened Reagan's hand by forcing Congress to vote on an overall budget strategy. David Stockman, Reagan's budget director from 1981 to 1985, explained how the centralized congressional process became a convenient handle to pursue the administration's goals. The constitutional prerogatives of Congress "would have to be, in effect, suspended. Enacting the Reagan Administration's economic program meant rubber stamp approval, nothing less. The world's so-called greatest deliberative body would have to be reduced to the status of a ministerial arm of the White House."[21]

The danger of permitting a President, or the executive branch, this much control over Congress is reflected in Stockman's own assessment of the expertise operating within the White House and OMB. After leaving office he admitted: "a plan for radical and abrupt changes required deep comprehension -- and we had none of it."[22]

The results of 1981 exposed serious weaknesses within Congress. Instead of following CBO's projections or substituting an economic forecast of its own, Congress accepted the administrations's assumptions. Although the Budget Act of 1974 gave Congress an independent technical capability with the creation of CBO, in 1981 Congress adopted the administration's flawed and false premises.

Gramm-Rudman-Hollings

The growth of budget deficits after 1981, combined with President Reagan's refusal to offer constructive solutions, paved the way for the Gramm-Rudman-Hollings Act of 1985. The statute symbolizes many things: an admission that the congressional budget process created in 1974 could not deal with deficits of that size; a recognition that the political stalemate between President Reagan and Congress required a statutory framework with effective sanctions; and an unwillingness to delegate any additional authorities or powers to the executive branch.

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[19] Rudolph G. Penner, "An Appraisal of the Congressional Budget Process," in Allen Schick, ed., Crisis in the Budget Process 69 (1985).

[20] Allen Schick, "How the Budget Was Won and Lost," in Norman J. Ornstein, ed., President and Congress: Assessing Reagan's First Year 25 (1982).

[21] David A. Stockman, The Triumph of Politics 59 (1986).

[22] Id. at 91.

Of course the sequestration procedure in the 1985 statute was declared unconstitutional by the Supreme Court in *Bowsher* v. *Synar* (1986). When I testified before the House Government Operations Committee in October 1985, I raised a number of constitutional questions about the bill. I was particularly concerned about the decision of Congress to dictate certain numbers (anticipated deficit) in the President's budget. It was my position that the very nature of an executive budget is that it reflect the numbers chosen by the President, who, in his judgment, recommends them to the nation. To the extent that Congress determines ahead of time the numbers that go into the President's budget, as with GRH, it undermines the integrity and responsibility of the President's submission. I said at that time: "While it is true that the U.S. Code contains numerous directives regarding the President's budget with regard to format, deadlines, and other matter, I do not believe that Congress can tell the President what deficit to include. An executive budget expresses what the President wants, not what Congress wants."[23]

Presidents have not raised a constitutional objection to the statutory deficit targets required by GRH. From a constitutional standpoint, I would say that this executive compliance is a political accommodation but is not legally binding. The budget is a proposal and I do not believe that Congress can dictate the content of a President's proposal. Under Article II, Section 3 of the Constitution, the President is empowered to give Congress "Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient." I do not see how Congress can interfere with the President's constitutional duty to present legislative proposals that *he* "shall judge necessary and expedient."

Nor am I favorably impressed that the executive branch did not object on constitutional grounds to the GRH deficit targets. If the White House finds it in its interest to relieve the President of the personal responsibility for submitting a national budget, given the magnitude of current deficits, GRH is a convenient way of ducking some of that responsibility. I was also concerned about the provision in GRH that allowed the Comptroller General to draft a presidential sequestration order that the President himself could not alter. Under the terms of GRH, the President would have had to issue an order under his own name but without the slightest ability to control the content. I thought that procedure was repugnant both to separation of powers and to the principle of presidential responsibility. Again, executive branch "accommodation" in this case may be little more than an effort to sidestep responsibility for the budget crisis.

There are many objections to GRH. Its one-year focus encourages both branches to make short-run decisions that complicate long-run problems. I think the deficit targets also fairly well ensure that appropriations bills will be held to the last minute, awaiting the most recent projections, and thus provide an incentive for delays in the annual appropriations bills with subsequent reliance on continuing resolutions. These delays also make it more likely that crucial decisions will be left to budget "summits," which "exclude most members [of Congress] and prevent the normal give and take of congressional deliberations."[24] Most observers conclude that both branches regularly adopt a variety of practices and innovations that obscure the reality of budget deficits. Moreover, GRH relies only on outlay reductions to meet the deficit targets; it does not address the revenue side of the budget.

Equally important is the effect that GRH has on the political responsibilities of the President and Congress. With a statute operating like a "crutch," they can avoid difficult decisions needed to remedy budgetary problems. By claiming to comply with deficit targets in a statute, which may be out-of-date or irrelevant for a particular year, they can fail to confront reality as it exists. Because the public believes that the budget problem is being dealt with by GRH, there is less public pressure on the political branches to take meaningful steps.

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[23] "The Balanced Budget and Emergency Deficit Control Act of 1985," hearings before the House Committee on Government Operations, 99th Cong., 1st Sess. 206 (1985).

[24] Raphael Thelwell, "Gramm-Rudman-Hollings Four Years Later: A Dangerous Illusion," 50 Pub. Adm. Rev. 190, 197 (1990).

Because of the inability of both branches to comply with GRH I, Congress has already found it necessary to enact GRH II. It would appear that Congress, unable to comply with GRH II, might have to pass GRH III. The drawbacks of GRH are so severe that it appears that both branches would be strengthened, rather than weakened, by having the crutch removed. They would then have to rely on the dynamics of the political process, with political accountability, which is what our system normally contemplates.

If we repeal GRH to force the political branches to deal effectively with the deficit problem, I do not understand the value of replacing it with another formula, such as Pay-As-You-Go. Perhaps such formulas are intended to reassure the public that Congress is not turning its back on the deficit issue, but such formulas reintroduce rigidities to the political process. I am concerned that Title IV might interfere with the responsibilities of both branches to discharge their obligations and hammer out the necessary accommodations.

The Need to Restore Presidential Accountability

Repealing GRH would be one way to place greater responsibility on both branches. I also think there is a need to revive the President's personal responsibility for confronting budget problems and offering his solutions. Our system works best when the President provides leadership, including frank talks with the nation to educate voters on the problems that exist and the steps to be taken.

Our record strongly suggests that when Presidents take responsibility for budget aggregates (total outlays, total receipts, and the level of the deficit or surplus), Congress generally lives within those aggregates while imposing its own system of budget priorities. Congress can always alter those aggregates, and has frequently done so, but the institutional strengths seem to be these: the President takes responsibility for the aggregates, and Congress changes his priorities by shifting funds from one program to another. Each branch can discharge those duties very well.

How else can we revive presidential responsibility for the budget? Here I come to a suggestion that may upset some participants in the budget process: repeal the requirement for a budget resolution. I don't see how we can make the President personally responsible for the budget so long as we have two budgets: one for the President, and one for Congress. With one budget, which we had before 1974, we can fix a spotlight on the President and restore some accountability and personal responsibility. With multiple budgets, we obscure the roles and contributions of the two branches.

Much of the Budget Act of 1974 has served us well. The Budget Committees are in a position to monitor the actions of the appropriations, authorization, and tax committees. The Budget Committees can direct the efforts of those committees in passing reconciliation bills. They can also play a central role in conducting scorekeeping operations (comparing the President's budget with congressional actions), monitoring the credit budget, reviewing the need for some permanent appropriations in order to increase the controllability of the budget, etc. CBO has demonstrated its professional competence in assisting Congress in these endeavors.

But why pass budget resolutions? Do their benefits, however one might measure them, offset the substantial and inevitable weakening of the President's budget? Do the benefits outweigh the substantial and inevitable confusion that erodes public understanding and accountability? I raise these questions as part of an effort to push both branches in the direction of better fulfilling their constitutional and institutional responsibilities. The absence of a budget resolution should restore the importance of the President's budget, which I think would go a long way in helping Congress to do its job and in permitting both branches to work together.

For the last decade we seem to have appealed to institutional weaknesses rather than institutional strengths. By looking to Congress for comprehensive action, we unwittingly weakened the unity and leadership that must come from the President. By creating multiple budgets, we opened the door to escapism, confusion, and a loss of political accountability. Process is important. How can we change the process to encourage the two branches to discharge their unique institutional responsibilities to the public? Shall we continue to rely on complex statutory formulas and procedures that tell the political branches how to do their job, or shall we rely on the political process and our political leaders to confront the budget problem and deal effectively with it? How much faith do we have in our political system?

Commentary

Federal Budget Doldrums: The Vacuum in Presidential Leadership

Louis Fisher, Congressional Research Service, The Library of Congress

The current budget process followed by Congress and the President is embarrassing both in operation and results. The Budget Act of 1974, which was supposed to correct procedural deficiencies, performed so poorly that Congress passed the Gramm-Rudman-Hollings Act in 1985 as the next-stage remedy. That statute, however, has been far more effective in sowing confusion and deception than in controlling budget deficits. The Bush Administration operates much like the Reagan Administration: the President offers little leadership for the budget crisis. For its part, Congress is reluctant to fill the vacuum for fear that it will be labeled "big spender."

Although it is fashionable to say that "the process is not the problem, the problem is the problem," the existing process is fundamentally defective because it fails to take advantage of the institutional strengths of Congress and the President. Instead, it feeds on institutional weaknesses. Make no mistake: process matters. A good process may not guarantee success, but it is a prerequisite for acceptable results. A bad process, which is what the United States government has, provides the wrong incentives for political institutions and virtually guarantees failure.

This analysis builds on the following premises and judgments: (1) the political process requires the President to play a central role in taking *personal* responsibility for submitting a budget; (2) presidential accountability has been eroded by the Budget Act of 1974 and the Gramm-Rudman-Hollings Acts of 1985 and 1987; (3) the process since 1974 has encouraged the phenomenal budget deficits of the past decade and discourages efforts to deal with them; (4) the political process works best when Congress receives from the President a budget which presents responsible totals for aggregates (especially total spending and the level of the deficit), with the understanding that Congress will generally live within those aggregates while rearranging the priorities; (5) the current process is at war with those objectives.

No doubt there are other factors that drive federal deficits: a public that wants more services than it is willing to pay for, the growth of entitlement programs that add to uncontrollable spending, and perhaps the rise of "divided government," with one political party controlling the Presidency and the other controlling Congress. However, little can be done about those factors, while something

Unlike the Budget and Accounting Act of 1921, which required the President to play a central role in the budget process, recent reforms in the Budget Act of 1974 and the Gramm-Rudman-Hollings Acts of 1985 and 1987 take the spotlight off the President's personal role. Instead, responsibility for budget preparation and control of budget aggregates is now diffused and confused, with the public unable to hold either Congress or the President responsible. This article argues that the basic principle of the 1921 statute was correct: the political system of the United States requires the President to take personal and visible responsibility for submitting a national budget. The process since 1974 has encouraged the phenomenal budget deficits of the past decade and discourages efforts to deal with them. As part of an effort to restore presidential responsibility, Congress should repeal the Gramm-Rudman-Hollings Act and also eliminate the adoption of budget resolutions, shifting the full burden of budget preparation to the President.

can be done to make the budget process work with, rather than against, the institutional capacities of Congress and the President.

The Lost World of Presidential Responsibility

Throughout the nineteenth century there was little need for an elaborate budget process or explicit responsibility from the President. Customs revenues usually covered modest federal expenditures. Decades of budget surpluses allowed the federal government to liquidate the national debt inherited from the states and, after that burden was discharged, to distribute surplus funds to the states.

Under the pressure of mounting deficits at the end of the nineteenth century and the early twentieth century, Congress established committees and commissions to recommend more efficient practices by executive agencies. A commission established by President Taft recommended that the President be made responsible for reviewing departmental estimates and organizing them to form a coherent document to be presented to Congress. Nothing came of this reform during Taft's administration, but it set the stage for the Budget and Accounting Act of 1921.[1]

The heavy costs of financing World War One precipitated the move to a modern budget system by the national government. Federal spending climbed from about $700 million before the war to $12.7 billion in 1918 and to $18.5 billion the next year. The national debt, which stood at about $1 billion in 1916, leaped to over $25 billion by 1919. To manage debts of that magnitude, members of Congress realized that new powers would have to be delegated to the President.

It is impressive to recall the attitudes within Congress at that time. The clear objective was to create a budget process to fit institutional and constitutional needs. The House Select Committee on the Budget explained its assignment: to determine "not what was theoretically desirable, but rather to determine what was practically feasible, keeping in mind at all times that to it had been committed the problem of recommending a system that would be in complete harmony with our constitutional form of government."[2]

To accomplish that task, the Committee examined the institutional strengths of both branches and carefully thought about the methods that might make the branches coordinate their efforts more effectively. It condemned the lack of accountability in the executive branch:

> Practically everyone familiar with its workings agrees that its failure lies in the fact that no one is made responsible for the extravagance. The estimates are a patchwork and not a structure. As a result, a great deal of the time of the committees of Congress is taken up in exploding the visionary schemes of bureau chiefs for which no administration would be willing to stand responsible.[3]

The Committee concluded that responsibility would have to be concentrated in the President. The only way to secure economy and efficiency in the expenditure of funds would be by placing "definite responsibility upon some officer of the Government to receive the requests for funds as originally formulated by bureau and departmental chiefs and subjecting them to that scrutiny, revision, and correlation that has been described."[4] Here the Committee reached a judgment that was soundly based on constitutional and institutional considerations:

> In the National Government there can be no question but that the officer upon whom should be placed this responsibility is the President of the United States. He is the only officer who is superior to the heads of departments and independent establishments. He is the only officer of the administrative branch who is interested in the Government as a whole rather than in one particular part. He is the only administrative officer who is elected by the people and thus can be held politically responsible for his actions. Furthermore, as head of the administration it is to him that Congress and the people should look for a clear and definite statement of what provision in his opinion should be made for the revenue and expenditure needs of the Government. The requirement that the President shall prepare and submit to Congress annually upon its convening in regular session a budget will thus definitely locate upon him responsibility for the formulation and recommendation of a financial and work program for the year to ensue.[5]

In fixing responsibility on the President, the Committee did not intend to subordinate Congress to the executive branch. Some of the budget reformers of that time wanted to copy the British parliamentary model in two ways: by concentrating power in the executive, and by prohibiting legislators from adding funds to the President's budget. It was proposed that members of Congress could add to the President's budget only by securing a two-thirds majority in each House or by obtaining the permission of the Secretary of the Treasury.[6]

This model of parliamentary government was decisively rejected by the House Select Committee on the Budget. The budget was to be executive only in the sense that the President was responsible for the estimates submitted. From that point on it was legislative, with Congress retaining full power to increase or reduce the President's estimates.[7] The Budget and Accounting Act was not meant to "impair either the authority or the responsibility of Congress."[8]

The principle of presidential responsibility for submitting a budget is reflected in the statutory language. The Budget and Accounting Act directs the President to transmit to Congress a budget which shall set forth, in summary and in detail, estimates of expenditures and appropriations necessary "in his judgment" for the support of government.[9] This notion of personal judgment is integral to an executive budget. Later I shall argue that it has been undermined significantly by congressional statutes, particularly Gramm-Rudman-Hollings, but also indirectly by the Budget Act of 1974.

The Decline of Presidential Responsibility After 1974

The institutional assignments to Congress and the President under the 1921 statute worked fairly well. Even during the Nixon Administration, when executive officials accused Congress of being "spendthrift" and operating on a national credit card,[10] the record does not support the charge of legislative irresponsibility. From fiscal 1969 through fiscal 1973, appropriations bills passed by Congress were $30.9 billion below Nixon's requests. Over that same five-year period, backdoor spending and mandatory entitlements exceeded his budgets by $30.4 billion.[11] In terms of budget aggregates, the figures were pretty much even.

Nothing in the 1974 Budget Act prevents the President from discharging his duties, and yet the legislation has had the general effect of obscuring and weakening presidential responsibility.

Through its own informal and decentralized system, including the "scorekeeping reports" prepared by legislative staff, Congress stayed within the totals proposed by Nixon. Congress was able to adhere to the President's totals while significantly altering his priorities.[12] Recent years, such as from fiscal year 1981 to fiscal year 1989, illustrate the same pattern. Congress rarely appropriates more than what the President requests. It usually appropriates less, while reserving for itself the right to shift program priorities.[13] Rudolph G. Penner, former Director of the Congressional Budget Office, recently commented on the special capacity of Congress to do better under a decentralized, informal system than under a system that appears to be more coherent and responsible:

> I have always been struck by the fact in looking at the history of the [budget] process that it appeared chaotic in the late 19th century and early 20th century, but the results were very good in terms of budget discipline, yielding balanced budgets or surpluses most of the time, unless there was really a good reason to run a deficit.
>
> Now we have a process that looks very elegant on paper, but it is leading to very dishonest and disorderly results.[14]

Penner identifies a crucial fact: the capacity of the President and Congress to decide budget issues reasonably well through the regular political process, disorderly as it is. The two branches perform less well when encumbered by the statutory disincentives found in the Budget Act of 1974 and the Gramm-Rudman Acts.

If the regular political system works so well, why did Congress bother to pass the Budget Act of 1974? Obviously some parts of the budgetary process did not function satisfactorily. There were serious concerns about the growth of backdoor spending (contract authority and borrowing authority) and the growth in mandatory entitlements. The unprecedented use of impoundment authority by the Nixon Administration triggered a monumental confrontation between the two branches.[15] Deficits were growing, although their levels at that time (about $20 billion a year) seem insignificant when compared with contemporary magnitudes. The appearance of inflation (supposedly caused in part by those deficits) also convinced policy makers that the budget process needed fundamental reform.

I understand the reasons that provoked the demand for budget reform in 1974. As a staff member of the Congressional Research Service (CRS), I gave considerable assistance to various titles of the Budget Act of 1974. The issue that should be of interest now is quite different: did the statute of 1974 do as good a job as the Budget and Accounting Act of 1921 in reconciling the institutional and constitutional responsibilities of Congress and the President? If it fails that test, the fault is of overwhelming importance, no matter how sophisticated, fascinating, and impressive the technical operation of the 1974 statute might be. Recall that in 1919 the House Select Committee on the Budget wanted to propose a budgetary system "in complete harmony with our constitutional form of government." The 1974 statute and its amendments fail that basic test.

Probably no one in the 1973-1974 period anticipated the complex dynamics of budget reform. If Congress strengthened its role in the budget process, would that weaken the performance of the executive branch, particularly the leadership required of the President? There is no necessary cause and effect. Nothing in the 1974 statute prevents the President from discharging his duties, and yet the legislation has had the general effect of obscuring and weakening presidential responsibility.

The principal reason behind the undermining of executive responsibility is that the nation now has not one budget (executive) but two: a presidential budget and a congressional budget. Furthemore, the congressional budget is not one but many: the first budget resolution, the second budget resolution (now repealed), and various House and Senate versions. Under these conditions the phrases "below budget" and "above budget" no longer have meaning. The country lost a visible benchmark (the President's budget) to provide a definite reference point and political check for measuring executive leadership and congressional actions.

As a result, the public and the press now have a more difficult time keeping the two branches accountable. Consider the debate in the House of Representatives in 1983, when members asked whether a pending bill was below budget or above budget. Congressman Jim Wright, as House Majority Leader, gave this response:

> This bill is not over the budget; the amounts proposed in this amendment are well within the budgeted figures. The amounts that we have agreed to and have discussed are not in

> excess of the congressional budget resolution. That, of course, is the budget.
>
> Now they may be in excess of certain amounts requested by the President in his budget request of last January. But that, of course, is not the budget. Congress makes the budget; the President does not.[16]

Wright's interpretation of the 1974 statute obviously parts company with the principles embodied in the Budget and Accounting Act. Although the framers of the 1921 statute jealously guarded congressional prerogatives, in the sense of giving Congress full freedom to increase or decrease presidential estimates, they wanted to fix personal responsibility on the President. They believed that presidential leadership and accountability were prerequites for effective action by Congress.

The confusion of multiple budgets creates substantial costs for democratic government. Neither the President nor Congress can be held publicly accountable for the national budget. Both branches and both parties practice the "politics of blamesmanship" by attacking each other's fiscal record. Witnessing this crossfire, voters cannot fix responsibility. Instead of staying within the President's aggregates, members of Congress can raise the ceilings in a budget resolution and tell their constituents that they have "stayed within the budget." Even Presidents find this convention attractive. In 1985, President Reagan announced that he "would accept appropriations bills, even if above my budget, that were within the limits set by Congress' own budget resolution."[17]

A stiff price is paid when a legislative process becomes overly complicated and confusing. Public accountability suffers. Congressman John Dingell voiced this objection in 1984: "What we have done over the past decade is to create a budget process that is so complex as to be incomprehensible to almost everyone. Most of the Members do not understand it beyond a superficial level. The press does not understand it. The business community does not understand it. The financial community does not understand it. And most important of all, the public does not understand it."[18]

Members of both branches understand that not only is the budget process confusing but that confusion has a purpose: it deceives the public. Congressman David Obey, a member of the House Appropriations Committee, offered this assessment in 1982: "under the existing conditions the only kind of budget resolution you can pass today is one that lies. We did it under Carter, we have done it under Reagan, and we are going to do it under every President for as long as any of us are here, unless we change the system, because you cannot get Members under the existing system to face up to what the real numbers do. You always end up having phony economic assumptions and all kinds of phony numbers on estimating."[19] After 1974, budgets submitted by Presidents and budget resolutions passed by Congress were chronically unreliable, regularly underestimating outlays and overestimating revenues. The result, year after year, are deficits far in excess of presidential and congressional projections.[20]

The decline in presidential responsibility for submitting budget estimates has been dramatic. After forcing major changes in tax rates, defense spending, and domestic programs in 1981, President Reagan's subsequent budgets were largely ignored by both Houses. He remained a player by opposing tax increases and defense cutbacks, but he was unwilling to present a budget and defend it personally. Instead, he shifted the responsibility for budget preparation and deficit control to the legislative branch. Congress (including the Republican Senate) accepted this assignment and did what it could to bring deficits under control, but voters cannot hold accountable an inherently decentralized legislative body in the same way it can fix responsibility on a single President. Although Congress reasserted its control somewhat, it could never rectify the massive fiscal mistakes of 1981.

The absence of presidential leadership for the national budget continues in the Bush Administration. Instead of President Bush taking personal responsibility for the budget, U.S. Office of Management and Budget (OMB) Director Richard Darman tried to negotiate a bipartisan strategy with Congress in 1989. When that strategy failed, the blame fell on Darman, not Bush. No doubt such tactics spare the President, but that was not the purpose of the 1921 statute. Quite the contrary. It was to make the President, not the budget director, legally and personally responsible for dealing with the budget. The President's budget for fiscal 1991 magnifies the director's role even more. President Bush receives one page for his message to Congress. Darman uses 15 pages to promote his views. The framers of the 1921 legislation would be amazed. They expected the budget director to operate under the President's shadow, not vice versa. Of all the twentieth century duties expected of the President, elected by all the people and accountable to them, the budget is one of his most fundamental responsibilities.

Budget Action in 1981 and Resulting Deficits

The budget resolution required by the 1974 statute was praised because it represented a vehicle for centralized, systematic, and coherent legislative action. The authors of the 1974 statute assumed that Members of Congress would behave more responsibly if they had to vote explicitly on budget aggregates and face up to totals, rather than vote piecemeal on a series of appropriations and legislative bills. In 1974, as now, it was difficult to defend fragmentation, splintering, and decentralization, especially when reformers pressed eagerly for "coordination" and a "unified budget process."

The model of the executive budget looked appealing. The Budget and Accounting Act correctly assumed that presidential control and responsibility are enhanced by centralizing the budget process in the executive branch. Does it follow that the same benefits will flow to Congress when it centralizes its budget process?

There are substantial risks when Congress, possessing different institutional qualities, tries to emulate the executive branch. The President heads the executive branch, fortified by a central budget officer. There is no head in Congress, which is inherently decentralized between two Houses, two political parties, and a variety of committees and subcommittees. Congress created the Congressional Budget Office (CBO), but it could never have the same institutional power as the Office of Management and Budget (OMB). The executive branch is largely hierarchical. No such quality applies to Congress, which is essentially collegial in its operations.

Although the 1974 Act has generally weakened the President's budget, under special conditions it can strengthen it. Those conditions materialized in 1981. With the right President at the right time, the budget resolution can advance not congressional goals but rather the President's agenda. President Reagan attracted the necessary votes to gain control over the budget resolution in both Houses. The budget resolution became the blueprint for enforcing the President's priorities for a tax cut, defense buildup, and retrenchment of domestic programs. Once the White House seized control of the budget resolution, which embodied its overall budget strategy, subsequent action on the tax bill, appropriations bills, and the reconciliation bill became the necessary steps to implement White House policy. When the theory of supply-side economics failed to generate predicted revenues, the nation faced budget deficits of $150 billion to $200 billion a year. President Reagan entered office with the national debt at approximately $1 trillion. It now exceeds $3 trillion.

How else can presidential responsibility for the budget be revjved? Repeal the requirement for a budget resolution.

Would the actions in 1981 have happened without a budget resolution? Possibly, but President Reagan would have faced almost insurmountable hurdles in trying to enact his radical, supply-side economics with the pre-1974 budgetary process. Most likely his program would have been chopped to bits by successive committee and subcommittee action. The budget resolution gave him the centralizing vehicle he needed.

Budget analysts have agreed with that assessment. Rudolph Penner, as Director of CBO in 1985, asked: "Would the dramatic actions of 1981 have been possible without the process? It is a question that no one will ever be able to answer with certainty. I believe, however, that it would have been difficult to achieve these results using the old, muddled way of formulating budgets."[21] Penner concluded that Reagan's objectives would have been much harder to achieve had he been forced to negotiate with the decentralized power structure that existed in Congress before 1974. Allen Schick makes a similar point:

> Historically, the president has been at a disadvantage vis-a-vis Congress in their periodic budget conflicts. Congress excels as an institution that fragments issues and avoids decisions on overall objectives. Before installation of the congressional budget process, this fragmented behavior characterized legislative consideration of the president's budget. Appropriations were splintered into more than a dozen bills, tax legislation was walled off from spending decisions, and Congress did not have to vote on the totals. Members were able to profess support for the president's objectives while "nickel and diming" the budget in their action on appropriations and other spending measures.[22]

The radical change in budgetary policy in 1981 sparked an explosion of budget deficits. It is highly unlikely that an error of that magnitude could have occurred with the decentralized process that existed before 1974. The incrementalism of that process functioned as an effective brake on extreme proposals.

The Budget Act of 1974 strengthened Reagan's hand by forcing Congress to vote on an overall budget strategy. David Stockman, Reagan's OMB Director from 1981 to 1985, explained how the centralized congressional process became a convenient instrument for implementing the Administration's goals. The constitutional prerogatives of Congress "would have to be, in effect, suspended. Enacting the Reagan Administration's economic program meant rubber stamp approval, nothing less. The world's so-called greatest deliberative body would have to be reduced to the status of a ministerial arm of the White House."[23]

The danger of permitting a President, or the executive branch, this much control over Congress is reflected in Stockman's own assessment of the expertise available in the White House and OMB. After leaving office he admitted: "a plan for radical and abrupt changes required deep comprehension—and we had none of it."[24]

The record of 1981 exposed serious weaknesses within Congress. Instead of following CBO's projections or substituting an economic forecast of its own, Congress accepted the Administration's assumptions. Although the Budget Act of 1974 offered Congress an independent technical capability by creating CBO, in 1981 Congress embraced the Administration's flawed and false premises. After passage of the Gramm-Rudman-Hollings Act in 1985, that congressional practice became habitual.

Gramm-Rudman-Hollings

The growth of budget deficits after 1981, combined with President Reagan's refusal to offer constructive solutions, paved the way for the Gramm-Rudman-Hollings (GRH) Act of 1985. The statute symbolizes many things: an admission that the congressional budget process created in 1974 could not deal with deficits of that size; a conclusion that the political stalemate between President Reagan and Congress required a statutory framework to force action; and an unwillingness in Congress to delegate any additional authorities or powers to the executive branch.

When I testified before the House Government Operations Committee in October 1985, I raised a number of constitutional questions about GRH. I was particularly concerned about the congressional decision to dictate certain numbers (anticipated deficit) in the President's budget. It was my position that an executive budget, by its very nature, must reflect the numbers chosen by the President. To the extent that Congress determines ahead of time the numbers that go into the President's budget, as with GRH, it undermines the integrity and responsibility of the President's submission. I said at that time: "While it is true that the U.S. Code contains numerous directives regarding the President's budget with regard to format, deadlines, and other matter, I do not believe that Congress can tell the President what deficit to include. An executive budget expresses what the President wants, not what Congress wants."[25] The statute was held unconstitutional a year later, but the U.S. Supreme Court focused on the power of Congress by joint resolution to remove the Comptroller General, who was made responsible for the sequestration procedure.[26]

The institutional strengths seem to be these: the President takes responsibility for budget aggregates, and Congress changes his priorities by shifting funds from one program to another. Each branch can discharge those duties very well.

Presidents have not raised a constitutional objection to the statutory deficit targets required by GRH. Executive compliance (or acquiescence) with the statute represents a political decision and does not settle the constitutional issue. The executive budget is a proposal and Congress cannot tell the President what numbers to propose. Under Article II, Section 3 of the U.S. Constitution, the President is empowered to give Congress "Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient." I do not see how Congress can interfere with the President's constitutional duty to present legislative proposals that *he* "shall judge necessary and expedient."

Nor am I favorably impressed that the executive branch raises no constitutional objections to the GRH deficit targets. The White House evidently finds it in its interest to relieve the President of the personal responsibility for submitting a national budget, given the magnitude of current deficits. GRH is a convenient way for the President to duck responsibility.

My testimony in 1985 also expressed concern about the provision in GRH that allowed the Comproller General to draft a presidential sequestration order that the President himself could not alter. Under the terms of the original GRH, the President had to issue an order under his own name but without the slightest ability to control the content. I thought that procedure was repugnant both to separation of powers and to the principle of presidential responsibility. Again, executive branch accommodation in this case may be little more than an effort to sidestep responsibility for the budget crisis.

There are many objections to GRH. Its one-year focus encourages both branches to make short-run decisions that complicate long-run problems. The one-year preoccupation encourages both branches to play tricks, such as shifting costs from the current year to a previous year, or raising revenue in the current year at the cost of losing much larger amounts of revenue in future years.[27]

The deficit targets also fairly well ensure that appropriations bills will be held to the last minute, awaiting the most recent projections. GRH thus provides an incentive for delays in the annual appropriations bills with subsequent reliance on continuing resolutions. These delays make it more likely that crucial decisions will be left to budget "summits," which "exclude most members [of Congress] and prevent the normal give and take of congressional deliberations."[28] Most observers conclude that both branches regularly practice deceit in order to hide the size of budget deficits. Moreover, GRH relies only on outlay reductions to meet the deficit targets; it does not address the revenue side of the budget.

Equally important is the effect that GRH has on the political responsibilities of the President and Congress. With a statute operating like a "crutch," they can avoid difficult decisions needed to remedy budgetary problems. By claiming to comply with deficit targets in a statute, which may be out-of-date or irrelevant for a particular year, they fail to address reality as it exists. Because the public believes that the budget problem is being dealt with by GRH, there is less public pressure on the political branches to take meaningful steps. Senator Jim Sasser, chairman of the Senate Committee on the Budget, has explained:

> we have ended up with two sets of books.... First, we keep a set for the Gramm-Rudman game—and this is a useful fiction manipulated to give the illusion of progress—and second, we keep a set of books that are the real books. This is the real deficit. And we neglect getting around to doing something about the real deficit because of the Gramm-Rudman set of books we keep.[29]

Congressman Marty Russo, chairman of the Task Force on Budget Process of the House Committee on Budget, made a similar point during hearings in 1990: "The President submits a budget that relies on very optimistic economic and technical assumptions and questionable savings proposals to meet the Gramm-Rudman deficit target. Congress attacks the assumptions and proposals as phony, but uses them in the budget resolution anyway."[30] Congress uses the President's phony figures because honest figures (which are available) would increase the size of the projected deficit and make it appear that Congress is the "big spender." Once the President ducks responsibility by submitting a dishonest budget, Congress is politically bound to adopt the same mistaken assumptions.

Because of the inability of both branches to comply with GRH I, Congress has already found it necessary to enact GRH II. Unable to comply with GRH II, Congress might have to pass GRH III, pushing the problem of deficits further into the future. The drawbacks of GRH are so severe that both branches would be strengthened, not weakened, by removing the crutch. They would then have to rely on the dynamics of the political process, including political accountability, which is what the constitutional system expects.

The Need to Restore Presidential Leadership

Repealing GRH would be one way to place greater responsibility on both branches. There is also a need to revive the President's personal responsibility for confronting budget problems and offering solutions. The system works best when the President provides leadership, including frank talks with the nation to educate voters on the problems that exist and the steps to be taken. That has not been done for many years.

The record strongly suggests that when Presidents take responsibility for budget aggregates (total outlays, total receipts, and the level of the deficit or surplus), Congress generally lives within those aggregates while imposing its own system of budget priorities. Congress can always alter those aggregates, and has frequently done so, but the institutional strengths seem to be these: the President takes responsibility for the aggregates, and Congress changes his priorities by shifting funds from one program to another. Each branch can discharge those duties very well.

How else can presidential responsibility for the budget be revived? Here I come to a suggestion that may disturb some participants in the budget process: repeal the requirement for a budget resolution. I do not see how the President can be made personally responsible for the budget so long as two budgets are proposed: one by the President, one by Congress. With one budget, the nation can fix a spotlight on the President and restore some accountability and personal responsibility. With multiple budgets, the roles and contributions of the two branches are obscured.

Much of the Budget Act of 1974 has served the government well. The Budget Committees are in a position to monitor the actions of the appropriations, authorization, and tax committees. The Budget Committees can direct the efforts of those committees in passing reconciliation bills. They can also play a central role in conducting scorekeeping operations (comparing the President's budget with congressional actions), monitoring the credit budget, eliminating some permanent appropriations to increase the controllability of the budget, and addressing other needs that require cross-cutting efforts. CBO has demonstrated its professional competence in assisting Congress in these endeavors.

But why pass budget resolutions? Do their benefits, however one might measure them, offset the substantial and inevitable weakening of the President's budget? Do the benefits outweigh the substantial and inevitable confusion that erodes public understanding and accountability? These questions are intended to push both branches in the direction of better fulfilling their constitutional and institutional responsibilities. The absence of a budget resolution should restore the importance of the President's budget, which would go a long way in helping Congress do its job and in permitting both branches to work together more effectively. If a budget process were constructed to exploit institutional assets inherent in the President and Congress, no need would exist for statutory mandates (as with GRH) or the extraordinary procedural innovations proposed in recent years (sequestration, capital budgeting, biennial budgeting, balanced budget amendments, line-item veto, and other proposals).

For the last decade, reforms have appealed to institutional weaknesses rather than to institutional strengths. By looking to Congress for comprehensive action, the unity and leadership that must come from the President have been unwittingly weakened. Creation of multiple budgets opened the door to escapism, confusion, and a loss of political accountability. Process is important. Changes in the process can encourage better discharge by both branches of their unique institutional responsibilities to the public. It is counterproductive to rely on complex statutory formulas and procedures that attempt to tell the political branches how to do their jobs. Instead, the political process and political leaders should be depended upon to confront the budget problem and deal effectively with it. It is a question of how much faith people have in the political system. Why not give it a chance?

* * *

Louis Fisher is Senior Specialist in Separation of Powers at the Congressional Research Service of the Library of Congress. This article is developed from his testimony before the House Committee on Rules on 21 March 1990. His books include *Presidential Spending Power* (1975) and *American Constitutional Law* (1990).

Notes

1. For further details on Taft's initiatives and the record of the nineteenth century, see Louis Fisher, *Presidential Spending Power* (Princeton, NJ: Princeton University Press, 1975), pp. 9-31.
2. H. Rept. No. 362, 66th Cong., 1st Sess. (1919), p. 1.
3. *Ibid.*, p. 4.
4. *Ibid.*, p. 5.
5. *Ibid.*, pp. 5-6.
6. Louis Fisher, *Constitutional Conflicts between Congress and the President* (Princeton, NJ.: Princeton University Press, 1985), pp. 232-233.
7. *Ibid.*, pp. 7, 9-10.
8. S. Rept. No. 524, 66th Cong., 2d Sess. (1920), p. 4.
9. 42 Stat. 20, 201(a) (1921).
10. Louis Fisher, *The Politics of Shared Power* (Washington: Congressional Quarterly Press, 1987), pp. 58-59.
11. H. Rept. No. 147, 93d Cong., 1st Sess. (1973), p. 39.
12. See also Paul E. Peterson, "The New Politics of Deficits," in John E. Chubb and Paul E. Peterson, eds., *The New Direction in American Politics* (Washington: American Enterprise Institute, 1985), p. 375.
13. 136 Cong. Rec. H1758 (daily ed. 25 April 1990), Statement by Congressman Byron L. Dorgan.

14. "Budget Process Reform," hearing before the House Committee on the Budget, 101st Cong., 2d Sess. (1990), pp. 20-21.
15. Fisher, *Presidential Spending Power*, *supra*, pp. 147-201.
16. 129 Cong. Rec. 25417 (1983).
17. *Public Papers of the Presidents*, 1985 (II), p. 1401.
18. "Congressional Budget Process" (Part 3), hearings before the House Committee on Rules, 98th Cong., 2d Sess. (1984), p. 161.
19. "Congressional Budget Process," hearings before the House Committee on Rules, 97th Cong., 2d Sess. (1982), p. 239.
20. Louis Fisher, "Ten Years of the Budget Act: Still Searching for Controls," *Public Budgeting & Finance*, vol. 5 (Autumn 1985), pp. 3, 4-9.
21. Rudolph G. Penner, "An Appraisal of the Congressional Budget Process," in Allen Schick, ed., *Crisis in the Budget Process* (Washington: American Enterprise Institute, 1985), p. 69.
22. Allen Schick, "How the Budget Was Won and Lost," in Norman J. Ornstein, ed., *President and Congress: Assessing Reagan's First Year* (Washington: American Enterprise Institute, 1982), p. 25.
23. David A. Stockman, *The Triumph of Politics* (New York: Harper & Row, 1986), p. 59.
24. *Ibid.*, p. 91.
25. "The Balanced Budget and Emergency Deficit Control Act of 1985," hearings before the House Committee on Government Operations, 99th Cong., 1st Sess. (1985), p. 206.
26. *Bowsher* v. *Synar*, 478 U.S. 714 (1986).
27. "Budget Reform Proposals," joint hearings before the Senate Committee on Governmental Affairs and the Senate Committee on the Budget, 101st Cong., 1st Sess. (1989), p. 3.
28. Raphael Thelwell, "Gramm-Rudman-Hollings Four Years Later: A Dangerous Illusion," *Public Administration Review*, vol. 50 (March/April 1990), p. 197.
29. "Budget Reform Proposals," joint hearings before the Senate Committee on Governmental Affairs and the Senate Committee on the Budget, 101st Cong., 1st Sess. (1989), p. 2.
30. "Budget Process Reform," hearing before the House Committee on the Budget, 101st Cong., 2d Sess. (1990), p. 1.

Chairman **Derrick**. Thank you, Dr. Fisher.

You took my first question when you said you would do away with the Budget Act.

Dr. **Fisher**. Not the Budget Act. Just the budget resolution. I think there are many parts of the Budget Act that are very healthy.

Chairman **Derrick**. In any event, the budget resolution.

I have read some of the testimony back in 1974 and thereabouts when we were formulating the Budget Act. The whole idea was it was going to put the pressure that was necessary on the Congress to do what they theretofore had not been willing to do.

You know, there were all these great expectations of balanced budgets, so forth and so on. So what you are telling me is you don't think that that has worked?

Dr. **Fisher**. I think you described it very accurately, what the assumption was at the time.

Chairman **Derrick**. Obviously it has not worked. Let me say that.

Dr. **Fisher**. It has not worked. Also, I think it was a mistake to say Congress had not done its job previously. There were problems at that time. I think you could have done some fine-tuning.

But I don't think it was correct that Congress had been derelict or irresponsible. It is not necessary to adopt some extremely complicated new procedures.

Chairman **Derrick**. Do you think this bill before us, H.R. 3929, Mr. Panetta's bill, is going to put more pressure on the Congress to do what we want them to do?

You know, we had a long discussion in here about corrals yesterday, about whether it was going to corral Congress into doing what they should do anyway. My opinion frankly was it might corral a little bit, but they would find out how to break the fences down soon enough.

Dr. **Fisher**. That would be my position as well. I think you cannot, by statute, force the two branches to go in any particular direction. I think new accommodations come along. Whatever the intention was by that statute, eventually it was undermined.

Chairman **Derrick**. I started out on the Budget Committee back in 1975. I served on it for a good while. I started out with a great deal of enthusiasm about the budget process. I have lost a large part of it, unfortunately.

I tend to agree with you. I have been in probably 340 meetings over the years of Democratic leadership. Every time the word "sequestration" or "sequester" was mentioned, we pictured the White House trembling down there. We found out that it was the opposite this last time.

We lived under the false assumption, I think, that that was the big club that we could hold over the administration's head to get them to do what we thought they ought to do with the budget. That has not been proven to be the case. I fail to see where it becomes anything but just an accounting procedure, the whole Act.

Dr. **Fisher**. As you know, it has gotten more and more complicated, almost every year. It is hard to believe how complex the process gets. Part of a good process is one that you can understand.

Chairman **Derrick**. Did I understand you to say you would also repeal Gramm-Rudman-Hollings?

Dr. **Fisher**. Yes. I would take out whatever props there are that prevent the two branches from meeting their political responsibilities. That is a leap of faith, isn't it?

Chairman **Derrick**. Well, I voted against it, believe it or not. I trembled, as I recall, when I did so, but I don't want to imply I had all that much wisdom. It seemed to me that since I have been in Congress, there have been any number of attempts to try to make the Congress do what they should do anyway, which is make hard decisions.

We had the Budget Impoundment Act; we had Gramm-Rudman-Hollings; we revised that once or twice. We have the threat of these constitutional amendments and so forth. We all know none of this stuff will work unless the Members are willing to say either yea or nay on these things.

Dr. **Fisher**. It is not a nice subject to bring up. Even on congressional pay raises, from 1789 up to the 1960's, that was done through the political process. In the 1960's, Members asked: "Isn't there a way to take that decision off the two branches? Couldn't we get a pay raise automatically without voting and taking responsibility?" There isn't a way.

Mr. **Derrick**. Sure isn't.

Mr. Wheat?

Mr. **Wheat**. Dr. Fisher, I got the feeling that your feeling of the budget process as it exists is something like a Rube Goldberg contraption of some kind. I understand your opposition to the artificial kind of process that has been established.

But if you were to compare these artificial mechanisms and the automatic mechanisms for trying to put some kind of enforcement into the budget process, that has not been or is not being done or some people perceive it has not been done through legislative will, could you compare the enforcement process in the current Gramm-Rudman budget process as opposed to the Panetta process?

Dr. **Fisher**. No. The Panetta process is a proposal that will probably change in practice. So to anticipate that, I wouldn't be able to do that.

Chairman **Derrick**. Would you yield for a minute?

I think that is an excellent question. As the bill is written now, do you see more of an enforcement mechanism in the Panetta bill or less than the current budget?

Dr. **Fisher**. The purpose is certainly to have more enforcement.

Chairman **Derrick**. Is it there? Were the levels there? Are the tensions there?

Dr. **Fisher**. I really do not feel qualified to make a judgment like that. I can't anticipate enough how it would work in practice.

Mr. **Wheat**. Well, you describe your view that the budget—that the Congress shouldn't do a budget, that it should be a Presidential document and we should react to it as a leap of faith that the system is going to work and we are going to have the political discipline to do our job.

You say it is a mistake to suggest the Congress didn't do its job before. That is obviously the view not only of a majority of the Congress, but from the opinion polls I have read, the view of the American people also.

What is there now that would indicate the situation would be any different, any lessening of political pressure to have some kind of automatic mechanism that would be thrust upon the Congress?

Dr. FISHER. Well, public opinion polls have always been against Congress, probably always will be. If you look at the statistics, even the 5 years under President Nixon, where the Congress was particularly criticized for its record on spending decisions, it was a washout. That is, Congress over those 5 years cut appropriations $30 billion; over those 5 years they added $30 billion to the back doors and entitlements.

On the aggregate, the record has been uniform over the decades that Congress does live within the aggregates set by the President. That is why it is so important to make the President responsible for those aggregates.

If Congress was criticized before 1974, of course they have been criticized after 1974 with the process. Members are criticized either way.

Mr. WHEAT. Let me ask about another important aspect of the budget document. As you point out, it is not only an economic statement, but it is a political statement also with the framework for the programs and policies of the administration when they propose a budget.

Do you suggest some kind of limiting role to the Congress in the sense of not being—that we ought not propose some kind of alternative program to the President, that we tinker with his budget and live within the numbers that he has set?

Dr. FISHER. When the President's budget comes up, it is no more than a proposal, and has no binding effect. Congress can change his priorities. It can change the aggregates, if it wants to. If you thought the President's budget wasn't stimulative enough or too stimulative, you could change the aggregates.

Congress has always been totally free to make any changes it wants in the President's proposal. But over time, as a generalization, what we get in aggregates is basically what comes up in the President's budget. If he sends up a budget that calls for a $200 billion deficit, Congress isn't likely to do much about that, either institutionally or politically.

Mr. WHEAT. I am not sure if I understand how the elimination of the congressional budget resolutions or the elimination of the various budget resolutions are really going to cause the process to work any better in terms of a reduced deficit.

While I would tend to—I don't like these automatic mechanisms either, but it is also obvious even to me that we have had significant budget deficits over the years that the American people are not happy with. I am not sure how a return to a system without an automatic mechanism is an improvement or will result in lower budget deficits when it did not prior to the establishment of these mechanisms.

Dr. FISHER. Well, the deficits in the early 1970's before we had budget reform were in the $20-billion-a-year level. That seemed frightening at that time.

It is true, as you say, that repealing Gramm-Rudman or doing away with budget resolutions doesn't offer us any guarantee at all or better results. It is a question of faith and of confidence.

But to go along as we have over these years always resting on one automatic feature, another automatic feature, finding those don't work either, brings up the question of deception. People who watch the process feel that it does call for deliberate deception by both branches over the years. That undercuts the kind of confidence you want from the public.

To me, your question is a good one. It is like pushing on a string. Just by taking out these artificial props doesn't mean that the President is going to step in and be responsible. But I think it puts pressure on the President to do that. There is very little pressure on the President today to do that.

Mr. **Wheat**. Thank you, Doctor.

Chairman. **Derrick**. Mrs. Martin.

Mrs. **Martin**. I am sorry. I am sure it was superb. As smart as I try to be without listening, it is hard to ask questions. I will pass. It doesn't stop some of us, I know.

Chairman **Derrick**. We congratulate Mrs. Martin on winning the primary yesterday. She just told me it was the greatest race she has ever had. She didn't have any opposition.

Nice to have you back, Lynn.

Thank you, Dr. Fisher.

Dr. **Fisher**. Thank you.

Chairman **Derrick**. Our next witness is Dr. Henry Aaron, senior fellow of the Brookings Institution, professor of economics at the University of Maryland.

Thank you for coming and giving us some of your time this morning.

STATEMENT OF HENRY AARON, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Dr. **Aaron**. I would like to highlight a few aspects of my remarks, but I will spare you the full torture of listening to it all.

This committee and all of Congress is now participating in what has become an annual ritual surrounding the budget procedures and Gramm-Rudman.

Every year, since the early 1980's, Congress has convened under the shadow of huge deficits that promise to damage the economy. The President has submitted a budget shortly after Congress convenes, usually based on economic assumptions that are rather overoptimistic and calling for spending cuts that in most cases have been repeatedly rejected by bipartisan majorities of both Houses of Congress.

I think every member of this committee understands that this ritual has done very little if anything to reduce the Federal budget deficit. The deficit has narrowed somewhat, to be sure, since Gramm-Rudman procedures have been in effect, but the reasons for that narrowing lie almost completely outside the requirements of those procedures.

The first reason, the deficits have fallen is that both Congress and the President agreed that the U.S. defense buildup had gone far enough and that we could scale back plans for increased defense outlays.

The second reason is that in 1983, well before enactment of the Gramm-Rudman procedures, a bipartisan majority of both Houses of Congress, supported by the President, approved a reform of the social security system and its financing that have led to the accumulation of very sizable reserves.

I think the Gramm-Rudman procedures have been highly effective, however, in an unintended direction. They have debased congressional behavior and public debate by encouraging laws to be designed to help meet the next target and later effects be damned.

They have cost the U.S. taxpayer billions of dollars by causing borrowing for the savings and loan bailout to be placed off-budget, and thereby boosted the interest rates the American public has to pay. And they have made virtually impossible the intelligent discussion of any initiative to deal with recognized national problems that might conceivably cost money.

They have abetted a national psychosis of public poverty in a nation that remains the world's richest and is enjoying a sustained economic expansion, low unemployment, and rising incomes.

It seems to me that the lesson of the Gramm-Rudman targets and the sequestration procedures is quite clear, and that is, as you stated, procedural rules cannot force bodies who created those rules to do things they simply do not want to do.

The Gramm-Rudman targets or modifications of them will do no more in the future than they have done in the past to speed deficit reduction. I think they may even hinder progress. By focusing attention on procedural mechanisms, they may divert attention from the need of the President and the Congress to agree on changes in real policy to meet real budget goals.

For that reason, although it is outside the framework of these hearings, I cannot resist putting in a good word for the very courageous proposal advanced by the chairman of the Ways and Means Committee, Dan Rostenkowski. While we may be able to disagree about the details of that proposal, it does contain all the essential elements that will be needed if we are going to move to deal effectively with the deficit.

Chairman DERRICK. If I may interrupt, I couldn't agree with you more about that. I think that is one of the boldest moves I have seen around here almost since I have been here. It was something needed.

Dr. AARON. Now I hope we can get both the White House and the Democratic leadership to stop sniping at elements of this proposal and get into discussions so that we can move the process forward.

My testimony also contains some remarks on what I think the goals for deficit reduction should be. Specifically, based on some work that my colleague Charles Schultze, who I am sure is well known to all of you, has done, the goal for deficit reduction, I suggest in my testimony, should be not just to eliminate the unified deficit action, but to achieve an overall surplus equal to about 1 percent of national product.

One can score that in different ways. One can score it as we do now. One could score it by taking social security off-budget, aiming essentially for balance on the remaining budget recognizing we will fall short when employment is less than full. Or we could score it through a mechanism similar to the one suggested by the President in his budget this year.

But the key point is the substance of budget policy. It is important for the Federal Government to stop draining private savings to finance current expenditures of government and instead add to national savings through its fiscal policies.

I have argued in my statement and here that the Gramm-Rudman procedures have been of little or no value in cutting the deficit. I think that retention of these targets promises no better results in the future.

In descending order of preferability, I would suggest that Congress has several choices. The first one would be simply to repeal the Gramm-Rudman procedures. They have failed to achieve their anticipated goals. They have produced unfortunate side effects; and if the President and Congress lack the will to deal with the deficit, such procedures are useless or worse.

With the will, they are unnecessary and diversionary. Touted as devices to steel congressional will, they have failed, and until the President and Congress come to believe deficit reduction is important enough for the country to cause them to put aside short-term political gains and to sit down and fashion a deficit reduction compromise, no procedural device will do any good.

The effort to pretty up the targets is a diversion from making that commitment. If putting the booze behind the sugar canister has not stopped a friend from drinking, one does the friend no service by helping him to find a better hiding place.

The only possible constructive value of the deficit in the Gramm-Rudman procedures, it seems to me, is in the deficit reduction targets rather than in sequestration. The targets may help in reminding the public that deficits persist and strenuous efforts to reduce them are necessary.

Sequestration does not advance that objective. Instead, it has been, as I suggested, a source of gimmickry and shortsighted legislation.

For this reason, I think that H.R. 3929 would represent a major improvement over current procedures. It would require announcement of deficit reduction targets for 5 years rather than just 1, exclude some gimmicks such as asset sales that have been used in the past and that the President would use again this year. And it would replace the sequestration procedures.

No set of procedures will cause deficit reduction if Members of Congress and the President do not agree to it; but H.R. 3929, I think, might help improve the environment in which real deficit reduction can occur by diverting attention away from these gimmicks and the sequestration procedures, and forcing Congress to focus on real policy.

I would like to conclude my comments—there is additional material in my testimony—by going back to some of the discussion you had with Mr. Fisher.

You asked in particular whether the levers are stronger under the Panetta bill than under Gramm-Rudman. I think the answer is no, they are not stronger; and that that is a virtue and will help deficit reduction rather than hinder it.

My reason for saying that is that strong procedural rules can be circumvented by clever members of the Office of Management and Budget and senior Members of Congress as they have been in recent years. Such rules are diversionary and encourage the discussion of false fixes that can be predicted to help but end up, when the scoring actually comes out, as having done little or nothing.

I also think I would like to place a somewhat different cast on recent budgetary history from what Mr. Fisher suggested. The events of 1981 did not reveal the weakness of the budget process. I say this as a Democrat who thought policy adopted at that time was not on balance in the national interest; but I think what we had at that time was a demonstration that the budget process worked.

We had overwhelmingly elected a President whose party controlled the Senate and had effective control of the House. The President enacted his program. Whatever I or somebody else may think of the components individually, the problem was that the arithmetic did not add up, that the combination of tax cuts and defense increases were vastly larger than domestic spending cuts for which there was congressional agreement or indeed that the President proposed. As a result the deficit that we now have was born at that time.

In 1982, the President lost effective control of the House that he enjoyed in 1981 and 1982. As a result, there emerged a disjunction between what Congress would accept and what the President would accept, an impasse out of which there was only one way, and that was compromise. Neither the White House nor Congress was prepared to make the compromises at that time; and the result was and would have been, I would submit, under any budget procedure, something very much like what we have today.

I don't think it is correct to say that the pre-1974 period was the good old days. It is important to remember that before then Congress lacked any procedure effectively forcing them to make tradeoffs against different categories of expenditures or indeed to link up the expenditure and revenue sides of the budget.

The former president of the Brookings Institution quipped that he thought some members of his own party should be characterized as those who didn't know there was any connection between the expenditure and the revenue side of the budget. That was a serious problem——

Chairman **Derrick**. Which party is he a member of?

Dr. **Aaron**. He was a Democrat.

Chairman **Derrick**. I was afraid of that.

Dr. **Aaron**. That was back in the good old days when Democrats were confident enough to poke fun at one another.

Chairman **Derrick**. I really thought he was a Republican.

That violates the number-one rule of any lawyer. Never ask a question when you don't know what the answer will be.

Dr. **Aaron**. In any event, I think it was not a problem unique to one political party or the other. There was nothing in the congressional procedures at the time to force Members on either side of the aisle in a systematic way each year to rack up the total of spending against the total of revenues and try to reconcile those two categories of decisions.

I think that introducing the new budget procedures in 1974 was desirable and that the budget resolution serves a potentially constructive function. It cannot however, paper over very deep and fundamental disagreements between the two coequal bodies of the U.S. Government that must agree if action is to be taken.

So it seems to me, coming back again to my fundamental argument: I think proposals such as that of Mr. Rostenkowski illustrate what needs to be done if we are to deal with the deficit; and if we are not prepared to engage in a discussion to transform that kind of a framework into actual legislation, none of these procedures is going to serve as anything but a diversion.

[Dr. Aaron's prepared statement follows:]

Statement of Henry Aaron[1]

before

The Subcommittee on the Legislative Process
Committee on Rules
U. S. House of Representatives

March 21, 1990

on
H.R. 3929 and Proposals to Reform Deficit Reduction Targets

Mr. Chairman:

Thank you for inviting me to testify before this subcommittee on H.R. 3929. I shall presume upon your courtesy to comment more broadly on procedures designed to promote deficit reduction.

We are here to celebrate what is becoming an annual Washington ritual. Each January since the early 1980s, Congress has convened under the shadow of large and economically damaging deficits. Late in the month the president transmits a budget to Congress. It is usually based on economic assumptions that strain credulity, if not the laws of nature. It calls for spending cuts most of which bipartisan majorities of both parties oppose and that Congress has repeatedly rejected. It calls for a few tax increases, usually called something else.

The administration uses and re-uses devices such as asset sales that entail no true deficit reduction, but are convenient ways to avoid real spending cuts or tax increases. And each year since enactment of official deficit reduction targets, the Administration claims that its budget will reduce the federal deficit to legally mandated levels.

Shortly after the administration submits its budget, the Congressional Budget Office informs Congress and the public what it already knew--that the Administration's projected budget will fall much less than the Administration claims, even in the extraordinarily improbable event that its program is enacted. In the months that follow, members of Congress find that they cannot enact honest expenditure cuts or tax increases that will meet these targets. And so, they fashion, alone and with the aid of the administration, a congeries of quaint and curious budgetary devices to "comply" with deficit reduction targets. Along the way, this committee and others undergo the exquisite torture of listening to witnesses scold them for not taking steps, the necessity of which they fully understand, but that they cannot take without presidential leadership. In the end, they adjourn, having certified that they have complied with the deficit reduction targets.

Almost every member of this committee understands that this annual ritual does virtually nothing to reduce the federal budget deficit. To be sure, the deficit has narrowed somewhat, but not because of anything related to budget procedures. The budget has narrowed because Congress and the administration came to agree that U.S. national defense was adequate and that further increases in the defense budget were not necessary. They also planned wisely in 1983, well before enactment of Gramm-Rudman procedures, for the accumulation of social security reserves. The deficit on the rest of government operations, however, remains above

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[1] Henry Aaron is Senior Fellow at the Brookings Institution and Professor of Economics at the University of Maryland. The views expressed in this statement do not necessarily reflect those of staff members, officers, or trustees of the Brookings Institution or the University of Maryland.

$200 billion for 1990, and the Congressional Budget Office projects that it will reach $246 billion by 1995, despite the assumption of declines in real defense outlays. This dismal performance annually recertifies the ineffectuality of the Gramm-Rudman targets in achieving their stated objectives.

The Gramm-Rudman targets and procedures have been highly effective in an unintended direction. They have debased Congressional behavior and public debate by encouraging laws to be designed to help meet the next target and later effects be damned. They have cost the U.S. taxpayer billions of dollars by causing borrowing for the S&L bail-out to be placed "off-budget" and thereby boosting the interest rates that have to be paid. The have made impossible the intelligent discussion of any initiative to deal with recognized national problems that might cost money. They have abetted a national psychosis of public poverty in a nation that remains the world's richest and is enjoying sustained economic expansion, low unemployment, and rising incomes.

The most important lesson from life under the Gramm-Rudman deficit reduction targets is that procedural rules cannot force the bodies who created those rules to do things they want not to do. The Gramm-Rudman targets or modifications of them will do no more in the future than they have done in the past to speed deficit reduction. They may even hinder progress; by focussing attention on procedural mechanisms, they may divert attention to the need of the president and Congress to agree on changes in real policy to meet budget goals.

The only way to achieve sensible budget targets is for sensible officials to sit down and negotiate an honest compromise. Ways and Means Committee Chairman Dan Rostenkowski put together such a proposal. The political catastrophe Walter Mondale experienced when he called for tax increases and the near catastrophe Ronald Reagan experienced when he proposed to cut social security have led leaders of both parties to put short-run political imperatives ahead of this budgetary fact: the deficit cannot be reduced sufficiently unless taxes are raised, social security entitlements, and defense is cut. I think some aspects of the Rostenkowski plan could be improved.

Taxation of social security benefits is preferable to an across-the-board cut in benefits (that is the plain English translation for withholding a cost-of-living adjustment). It would be fairer to increase income taxes proportionately with a surtax than to raise taxes by higher percentages for low- and middle-income than for upper-income families, which is the consequence of skipping indexing for one year. And defense spending can be cut safely and prudently by more than either the administration or Mr. Rostenkowski proposes.

We can all argue about the details of the Rostenkowski plan. But that is what we should be doing--arguing about the details--not about the soundness of the approach, and especially not about procedural fixes that divert discussion from the real issues.

What Should Budget Goals Be?

Awareness is spreading, I think, that the federal government should be adding to, not subtracting from, private saving. U.S. households and businesses are not saving enough to meet U.S. requirements without borrowing abroad. These domestic requirements include U.S.-based investment and the creation of reserves to help meet future costs for pension and health benefits for the large increase in the numbers of retirees in the first third of the next century.

My colleague Charles Schultze has estimated that these requirements come to just under 8 percent of net national product during the 1990s. This estimate is conservative, as he did not make full allowance for the added costs of retiree health benefits next century. U.S. private saving is currently running at about 7 percent of net national product. These two numbers imply that the federal government should run a surplus of about 1 percent of net national product on the average during the 1990s. This goal would be approximated if the budget for operations of government other than social security was balanced at high employment and if the accumulation of reserves scheduled under current law is retained.

It is obvious that the substance of budget policy is what matters for national saving, not how the budget is reported. If current accounting procedures are retained, the goal for fiscal policy should be a surplus on the overall budget a bit less than the social security surplus. If social security is removed from the budget, the target should be balance at high employment in what remains, which would mean a small average deficit over the business cycle. If the administration proposal to keep social security within the budget, but create a special debt reduction expenditure account is adopted, the same goal would be appropriate as if social security were off-budget.

While accounting procedures do not directly affect economic significance, how the budget is reported can affect public debate about what budget policy should be. My own view is that the chances of developing and sustaining public support for the desired fiscal policy is marginally greater if the "goal" is "balance at high employment" than it is if the goal is a large and varying "surplus," as it would be if social security is kept on budget without the administration's special debt reduction account. But it is far too easy to allow an ultimately unresolvable debate about which method of accounting is best to divert attention from the central fact that all of the accounting reform in the world will not directly cut the deficit by one cent.

Procedures

I have argued that the Gramm-Rudman procedures up until now have been of little or no value in cutting the deficit and have done serious harm to rational debate about budget and fiscal policy. Retention of the targets promises future results no better, and perhaps worse, than those to date.

The possibility that the situation will deteriorate rests on two facts. The required cut for 1991 is larger than those of previous years, intensifying incentives for wasting time in developing new gimmicks and for adopting any policy, however flimsy its justification, that promises any relief in 1991. In addition, the threat of sequestration now looms as a more serious threat for those particularly anxious to protect domestic spending than for those particularly anxious to protect defense spending. As a result, the political equilibrium that made agreement on some package better than sequestration has been upset (although sequestration in 1991 along the militarily irrational lines required by Gramm-Rudman might threaten so much chaos that it restores balance).

In deciding what to do about the deficit reduction targets, I think that Congress has several choices in descending order of economic desirability.

Repeal the Gramm-Rudman Procedures

The Gramm-Rudman procedures have failed to achieve their stated goal. They have produced unfortunate side-effects. If the president and Congress lack the will to deal with the deficit, such procedures are useless or worse; with the will, they are unnecessary and diversionary. Touted as devices to steel the Congressional will, they have failed. Until the president and Congress come to believe that deficit reduction is important enough for the country to cause them to put aside short-term political games and to sit down and fashion a deficit reduction compromise, no procedural device will do any good. The effort to pretty up the targets is a diversion from making that commitment. If putting the booze behind the sugar canister has not stopped a friend from drinking, one does the friend no service by helping him to find a better hiding place.

Replacing Sequestration with Other "Sticks"

The only possible constructive value of the deficit reduction targets, in my view, derives from their help in reminding the public that deficits persist and that strenuous efforts to reduce them are necessary. This value is served by the targets. It is not advanced by sequestration, which has been the source only of the gimmickry and short-sighted legislation I mentioned earlier.

For this reason, I think that H.R. 3929 would represent a major improvement over current procedures. It would require the announcement of deficit reduction targets for five years rather than just one, it would exclude some of the gimmicks (asset sales, for example) that have been used in the past, and it would replace the sequestration procedures. Violation of these targets would subject proposals to points of order, rather than sequestration. In all these respects, it is clearly preferable to the Gramm-Rudman procedures.

Because no set of procedures will cause deficit reduction if members of Congress and the president are not agreed to do it, H.R. 3929 may help to establish the environment in which real deficit reduction can occur. It prohibits scoring as success some of the more absurd gimmicks allowed under the Gramm-Rudman procedures. Perhaps most notably, by extending the scoring period to five years, it would discourage legislation that cuts the deficit for one or two years but raises it ever after (the capital gains exclusion comes to mind). This modification does not completely eliminate incentives for concealing deficit-increasing effects beyond the five year planning period (the Family Savings Account proposal, whose deficit increasing effect detonates fully only after seven years, comes to mind). But its procedures would be major improvements over current ones.

The fundamental advantage of H.R. 3929 is that it places responsibility for reducing the deficit where it belongs--on officials elected to make decisions, not on a formula to which those same officials can abdicate their duty.

New Sequestration Formulas

I believe that sequestration in any form is pernicious, because it allows elected officials to escape responsibility by hiding behind a formula. It reduces chances for negotiation as all sequestration formulas are mindless and mechanical and none can fit well the particular conditions that the country will encounter even a year or two ahead. Those who thought otherwise should have changed their minds last year in the face of the utter transformation, within a few months, of U.S. defense requirements for the 1990s.

Nevertheless, if sequestration is retained, some formulas are worse than others. Events in Eastern Europe demolished whatever rationale underlay the 50-50 formula contained in Gramm-Rudman procedures. Continuation of a formula for sequestration should recognize that any honest baseline for military expenditures entails sizeable cuts in real spending.

In thinking about a plausible alternative formula, experience under Gramm-Rudman has taught several lessons that could be used to fashion an alternative that would not be quite as bad as the 50-50 formula (although it would still have all of the other undesirable effects sketched above).

- First, as already mentioned, defense spending in the baseline is coming down. This fact is important not only for the obvious reason that defense should be expected to account for more than half of spending cuts, but also because the cuts in baseline defense spending promise significant savings in reduced interest outlays. The national debt will be smaller, and a reduced deficit will permit interest rates below those that would otherwise have materialized. One should recognize, however, that little of these savings will accrue in 1991 or 1992.

- Second, no matter what individual members of Congress may want, majorities do not exist in Congress to cut domestic spending enough to meet reasonable budget goals. The successive projections of increasing deficits on operations of government other than social security testifies to the absence of such a consensus. To be sure, some additional cuts in domestic spending are possible and probably desirable, but they are small relative to what a 50-50 split between domestic and defense spending would require. Furthermore, a strong case can be made for some increases in federal spending in such areas as education, the environment, and research that would offset part or all of the cuts.

- Third, there is no chance of reaching the budgetary goals I sketched earlier – a swing of roughly$200 billion – without some increase in taxes. The prospects of large cuts in defense spending and associated interest savings mean that the tax increase necessary to reach those targets is much more modest than might appear.

Accordingly, any automatic sequestration should include both taxes and expenditures, and expenditure cuts should be allotted more than proportionately to defense outlays, especially if the targets were to be extended beyond 1993. As a rough guide, I would allot 50 percent of any sequestration to surtaxes on the personal and corporation income taxes, 35 percent to cuts in defense spending, and 15 percent to nondefense spending.

Let me hasten to acknowledge that such a formula will not work well. The cuts in defense spending that the collapse of the Soviet empire permits will start small and grow. In principle, the proportion of any sequestration allocated to defense should also grow. Furthermore, the share would depend on the speed with which the overall deficit is to be reduced. I mention these considerations to indicate that the matter of allocating shares is tricky and sensitive to a number of highly complex considerations. But my real point is that the search for a sensible sequestration formula is futile – no "correct" formula exists and none can be developed.

Chairman **Derrick**. Thank you very much for your statement.

As I understand it, as far as the budget process is concerned, you think we ought to keep it but it ought to be kind of an acting procedure? Is that about the size of it?

Dr. **Aaron**. I think procedures that require Congress to rack up all expenditure decisions in one place and to plan in advance general guidelines according to which the committees should respond is constructive. That is more than just a set of numbers if there are congressional procedures that can be used to try to encourage Congress to move in those directions; but I don't think it is possible for procedures to substitute for real congressional will to move in these directions.

Chairman **Derrick**. It seems to me that everything we have done—the Budget Act back in 1974, Gramm-Rudman-Hollings, the revisions of Gramm-Rudman-Hollings, the balanced budget amendments, all this—is for one reason, the understanding behind it is deficit.

Dr. **Aaron**. Yes.

Chairman **Derrick**. Do you think we should be concerned about the deficit to begin with?

Dr. **Aaron**. Yes, I do.

Chairman **Derrick**. I know that is a subject—could be the subject of an entire hearing. I was just curious.

Dr. **Aaron**. I have a section in my testimony that speaks to that issue. The general proposition, I think, was argued with admirable clarity in the introduction to the President's budget this year in which the decline in national saving, private and public, was described and the pernicious effect that such a decline in savings will have on the U.S. economy over the years ahead was sketched.

I also think that the persistence of the deficit has a politically paralyzing effect on the serious consideration of actions that are necessary to advance the public well-being in a number of areas because of this false sense of poverty that arises because of the persistent deficit.

Chairman **Derrick**. What do you think the Panetta bill is going to do to help that situation? You know, I am looking at it, trying to be critical, as much as I appreciate Leon introducing the bill, at least as a vehicle to move ahead with.

You know, we had four or five very bright, distinguished Members of Congress in here testifying yesterday. There was one thing everybody agreed on. It is the same thing everyone agreed on this morning. It is that you can't make Congress do what they won't do. You can't make them vote more taxes if they don't want to do it. You can't make them cut programs if they don't want to do it.

I kind of liked Lou's proposition. We just do away with the whole business. Let them go about business. That is what they are going to do anyway. Maybe you might come out better that way.

I see all these leverages. Members, legislators are constantly looking for means they can devise so they won't have to make hard decisions. I had hoped the Budget Act wasn't one of those and hoped Gramm-Rudman was not one of those; but I have come to the conclusion that that is all that it amounted to.

Dr. **Aaron**. Let me say, as I said in my testimony, that that would be my first choice. As Members of Congress, you know better than academics like myself that the art of legislation is compromise.

Many Members of Congress feel that certain procedures are necessary and important. For that reason, in order to get a majority, it may be necessary to institute certain procedural guidelines.

What I would suggest is that those contained in the Panetta bill are largely either benign or helpful. They will not excuse Members from making hard decisions. Those are still going to have to be made.

Chairman **Derrick**. My original statement, in the introduction, is not incorrect. What you think we need is an accounting procedure, to help us—that is basically it.

When I was on the Budget Committee, the first couple of years when Brock Adams was chairman, if I remember correctly, that is about what we did. It was only in later days that the Budget Committee started getting involved in a substantive way and start getting people mad at it because they got on other people's turfs. That is what we really were the first couple of years.

Dr. **Aaron**. I don't want to get into the historical disagreement.

Chairman **Derrick**. What is it? We had—two other times in this century, we have had to—tried to have budget committees in the Congress. I think in the very early part. I think about 1947 or 1948, somewhere in there. They burned both attempts, as I recall. Kind of turned out the way this seems to be turning out.

Dr. **Aaron**. I think the elements contained in the Panetta bill would not contain the perverse incentives that sequestration constitutes.

Fundamentally, it seems to me what the Panetta bill is truth-in-accounting bill with a reaffirmation of the budget law's procedures for moving legislation through Congress. It scraps sequestration.

In each of those dimensions——

Chairman **Derrick**. What it does, it does away with all the referral language.

Dr. **Aaron**. Not quite all. It does retain the same levers you had under the original Budget Act, I believe. But it does get rid of the sequestration which I think has just become unworkable and will be even less workable in the future.

Chairman **Derrick**. What we found out, we pulled that lever and nothing happened.

Dr. **Aaron**. That is right. It is going to become worse, not better. Because of the well recognized fact that the true base line for national defense is probably below any sequestration amounts that would turn out, although, of course, the actual pattern of sequestration that would result for national defense would be bizarre defense policy, not something you would really want to live with. It has become a kind of peculiar and unbalanced stick now.

Dr. **Derrick**. Thank you very much.

Mr. Wheat.

Mr. **Wheat**. Thank you, Mr. Chairman.

While you are on sequestration, you propose a new sequestration formula, if we have to have one, but let me ask you, assuming that the tax proposal is not something that could be a part of it realistically, would you find a different proportion would be preferable to the current sequestration formula we currently have?

Dr. **Aaron**. I don't think so. In the following sense: it seems to me if one were to rely on sequestration applied only to public expenditures, I would urge Members to simply let the current law expire and not to participate in the negotiation over its extension, because I believe the effects will be so pernicious that anything you might agree to would be worse than nothing at all.

Mr. **Wheat**. Not being an attorney, I am going to subject myself to the folly that Butler would not and ask a question that I don't know the answer to.

You suggest that—I think you suggest in your statement that it would be appropriate to have a surplus. I am not sure why you would suggest that?

Dr. **Aaron**. There are a couple of ways one can go about reaching this conclusion. The calculations on which this recommendation are based proceed as follows: We need national saving for two different reasons.

First of all, as the labor force grows during the 1990's, we are going to want to be able to equip the labor force with capital at ratios similar to those, or in amounts similar to those that the current working force has. We are going to want to deepen the capital stock sufficiently to increase national output by some amount.

The estimate that my colleague reached is that we need something slightly over 5 percent of net national product in saving to accomplish this goal.

In addition to that, we need savings of about 2½ percent of national product to help get us ready for the additional cost that the large growth in the number of retirees will impose on the Nation early in the next century.

That means that roughly 8 percent of national product should be saved in order to enable us to meet these targets without having to borrow abroad. Private savings is running about 7 percent. We need a government surplus of about 1 percent therefore, to achieve that goal.

Mr. **Wheat**. Recognizing there is an artificial differentiation between the social security surplus and the other Government funds, are you suggesting that the major surplus should be—if the major surplus were in social security trust funds, would that in and of itself be sufficient for the kind of surplus you are talking about?

Dr. **Aaron**. If we balanced the budget exclusive of old age and survivors insurance, and retained social security, we would achieve that goal.

Mr. **Wheat**. It is interesting you point out for various time we need different policies with regard to savings or deficits. I am not sure that being the case, if you would suggest now we need surplus and there are obviously other times, and there have been times in our history, when we have needed deficit spending. I am not sure why we would want to look into any particular kind of plan that was inflexible in terms of suggesting what our budget deficit ought to be at any given point in time?

Dr. **Aaron**. I don't think, as a practical matter, Congress can lock itself in. Each year it is going to have to consider what an appropriate budget policy is. Currently, the United States has a large deficit. In order to make up a shortage of national savings, we are borrowing heavily overseas. We need more savings in the United

States now. That may not be true 10 years from now if private saving increases, or something else occurs.

Should that happen, I agree with you completely. A different budget policy from the one I am describing here might then become appropriate. The essence of what I am saying is we should not be rigid. We should not lock these goals, as I have described them for current policy, into some form of legislation that would attempt to bind future Congresses.

Mr. WHEAT. One more quick question on the savings rate. You said the private saving was about 7 percent?

Dr. AARON. That is including the surplus in State and local government pension funds, which is really analogous to a kind of employment based pension.

Mr. WHEAT. And we need a savings rate of?

Dr. AARON. Nationally of about 8 percent. We need another 1 percent.

Mr. WHEAT. It is just the disparity between the two that is the problem? That is why we couldn't merely reduce taxes? Instead of running a surplus, just not collect that income unless there was a change in the savings habits of the American public, we couldn't expect an increase in savings as a result?

Dr. AARON. No; I don't think so. Currently, to give you the measure of the problem, it isn't 7 percent versus 8 percent. The private saving number is under 7 percent. The Federal Government's deficit is about 3 percent. So we are really actually saving under 4 percent. So what we are looking at is a shortfall in the saving needed to meet the targets I described of about 4 percent of national product, and that is on the order of about $200 billion a year. That happens also to be exactly the current deficit on the Federal budget outside of social security.

So it is for that reason that I am suggesting that if we balanced the non-social security deficit or aimed to so over the next 4 or 5 years, we would be approximately on target for achieving the national saving that we need to invest domestically, prepare for the retirement boom, and do that without borrowing from abroad.

Mr. WHEAT. Thank you, Mr. Chairman.

Chairman DERRICK. Mrs. Martin.

Mrs. MARTIN. One question that doesn't have anything to do with your testimony, but just an economic question I don't know the answer to. When we define what savings are, unlike many, even industrialized nations, home ownership is still for many people, a doable dream in America. In many other nations, home ownership is not a factor. Rental is what one does all of one's life, with rare, rare exceptions.

We don't call, though, in economic terms, we don't figure out home ownership as part of the savings? In other words, for many people of other nations, savings is an only alternative, where for all Americans, they may choose—I am going to have a higher mortgage payment, I am going to put my money in a down payment, I am going to have the option for ownership of property. Is that true? How does that work out economically?

Dr. AARON. If people pay down their mortgages that counts as saving in the United States.

Mrs. MARTIN. Which part?

Dr. **Aaron**. Not the payment of interest. The payment on principal represents an addition to saving. If they build up cash reserved in order to prepare to make a down payment, that counts as savings.

If they borrow against appreciation in the value of their house and spend it, then that is dissaving, or it is consumption, which is two ways of saving the same thing.

We do count residential construction as investment, and we do count the amounts that, in effect, people build up in their equity position as saving.

Mrs. **Martin**. But there would be an unknown number, because of the option for ownership that exists here, that might not therefore be comparing apples and oranges? It might be comparing tangerines and oranges?

Dr. **Aaron**. You mean as between the United States and other countries?

Mrs. **Martin**. Yes, where home ownership is not something—is not an option, not an option a majority of people may choose. There may be other numbers out there we don't count, so the comparisons are not quite as valid as they might be.

Dr. **Aaron**. You are getting to the question of why people might save or not save as between one country and another. The arrangements for housing certainly do differ and affect motives for saving.

Mrs. **Martin**. For instance, I don't have savings. I have mortgages. That is the stage I am in.

Dr. **Aaron**. Right. Me, too.

Mrs. **Martin**. I suspect lots of people are in that position.

Mr. **Wheat**. If the gentlewoman would yield for a moment, I think that would have the opposite effect.

Mrs. **Martin**. I am not sure we count it the same way. When we talk about percentage of savings, I am trying to get to the count we use, not to the behavior.

Chairman **Derrick**. I want to make sure I understand. Are you telling me if I have $100,000 equity in my home and our personal savings rate in this country is 7 percent, that my $100,000 is counted as a part of that 7 percent?

Dr. **Aaron**. No. What I would say is the following: Let's assume you paid off your mortgage completely and let's ignore property taxes and everything else about our house. You have a $100,000 house. The Department of Commerce will impute as part of the national product a certain percentage of the value of your house. You are regarded as consuming that during the year. That is not a saving. So an entry will go on both sides of the ledger: Income that represents the value of the housing services that are generated by the house in which you live, and you, as the resident, are consuming those housings services. So, the very act of residing in the house, no mortgage, ignoring everything else, doesn't affect savings at all.

Chairman **Derrick**. Okay. Well, so the answer to my original question is no?

Dr. **Aaron**. That is right.

Chairman **Derrick**. All right, let me carry that a step further. Excuse me. Mrs. Martin.

Mrs. **Martin**. Hey, when I ask a good question, I ask a good question.

Chairman **Derrick**. I think it is a very interesting question, something I hadn't thought much about.

Let's compare ourselves with Japan, since they seem to be whom we compare ourselves with all the time these days. There is not a great opportunity there, as I understand it, for home ownership?

Dr. **Aaron**. There is a——

Chairman **Derrick**. Certainly not anything on the scale of our country?

Dr. **Aaron**. Actually, there is a fair bit. I visited Japan for a housing conference. The story in Japan is that because property is so costly, people save enormous amounts of money in order to accumulate down payments.

Chairman **Derrick**. That is the point. I think you just made the point. I think you answered the question I was about ready to ask. When you compare our savings rate with Japan's savings rate, you are really comparing apples and oranges to a large degree?

Dr. **Aaron**. No. Let me explain why.

Chairman **Derrick**. Wait a minute now. You just told me—if you just told me my $100,000 equity is not countable in that savings thing and we have just agreed that people save large amounts of money to buy homes that they can't buy because they are so expensive, and that is counted as part of the savings rate——

Dr. **Aaron**. May I distinguish two things—the motives for saving and what actually happens. What you both have been asking me about concerns the motives for saving in the two countries. The definition of saving is the difference between a country's product and what it consumes privately and publicly. The rest is investment.

In the case of the Japanese, there is a huge gap between what they are producing and what they are consuming privately and publicly. On the order of perhaps 15 to 20 percent of net product is saved in Japan.

In the United States, the corresponding number is about 3½ to 4 percent. So there are huge institutional differences between the two countries.

The motives are very different. They have various kinds of savings accounts. They have a different culture from our own. But the fact of the matter is when you cut through all the motives and the institutional differences, their net saving each year is probably five times ours.

Mr. **Wheat**. Let me ask for a point of clarification on Butler's $100,000 equity in his house that is not counted as savings.

Mrs. **Martin**. I am impressed with that.

Chairman **Derrick**. Me too.

Mr. **Wheat**. Isn't a portion of that equity counted as savings? The amount you are paying into the mortgage that is not interest each year, that adds to equity that is not—the inflationary increase in the value of the house, isn't that counted as part of savings?

Dr. **Aaron**. The question I answered for the chairman was if he owned his house free and clear, it was worth $100,000, so there is no mortgage payment for his question.

Now, for your question, if you have a mortgage and you are paying it off, part of the payment is for interest. That is not saving. Part of it reduces the principal—the outstanding principal. That is saving.

In addition, the value of your house goes up during the years. That is simply the reevaluation of an existing asset. It is not saving, because nothing real has changed in the economy. It would be very difficult to raise the savings rate strictly through housing policy.

Chairman DERRICK. With large mortgages.

Mr. WHEAT. With large mortgages, and at the same time, increase the down payments required to make it more difficult for people to buy these homes we want them to buy so we can count their savings to put down the down payment as savings?

Dr. AARON. Without getting into the details on that, I would urge if you want to increase saving, you try something else.

Mrs. MARTIN. If I may reclaim my time, that is exactly what Japan does. I mean, it is my recollection—and I am no great expert on Japanese housing—but my recollection is the mortgage or the down payment requirements are enormous in Japan—50, 60 percent. So that is a very different thing in terms of why you save in that you do save and so, in effect, they do exactly that, which I would concur.

We are not crazy about that political application of it, but that is why just comparing the two is more than just savings. It is a life style, quality of life, everything else.

Dr. AARON. Actually, I think you can get away with somewhat smaller down payments in some situations.

Mrs. MARTIN. You can still do a 10 percent down in America. It is more commonly 20 percent.

Dr. AARON. Ten percent. I know places that will pay you to borrow.

Mrs. MARTIN. That sounds like something on late night TV.

Dr. AARON. The main consideration in Japan is that housing is so cramped people can't buy much to put in it.

Chairman DERRICK. Can't buy much furniture, you mean?

Dr. AARON. Consumer durables. There just isn't any room. Also, they work so hard they have not been taking a lot of time to consume.

Mrs. MARTIN. So do Members of Congress.

Mr. WHEAT. Could Congressmen have an automatic mechanism to do their job for them?

Mrs. MARTIN. That is called the electronic voting machine.

I was here—although not for a long period of time, sir—before Gramm-Rudman and after. I am always fascinated by people with the marvelous background and intellect you bring to our discussion, stalking somehow if we remove or put something in that somehow the Congress—in this case, especially the House—will go into a frenzy of long term thinking. How institutionally, when you have by definition an institution on a 2-year cycle would you ever, except in a time of national tragedy, or crisis, ever gain institutionally expect something set up on a 2-year cycle, to think in a 20-year cycle? I always hear that from the groves of academe.

Dr. Aaron. You haven't heard it from me. What I said is that I think the sequestration procedures, that the sign of the effect is wrong, that it diverts attention away from legislative substance to procedural gimmicks behind which it is possible to hide.

And it diverts attention toward designing legislation to save a little money in year one, and who cares about what happens in year two, three, and four?

That it focuses on using assumptions that are unreal, such things as claiming savings for food stamps that haven't been used, financing the savings and loan bailout in ways that cost too much.

Mrs. Martin. I still remember coming here bright eyed, eager to learn everything, and finding out that before Gramm-Rudman, we only appropriated for 6 months in programs and counted that as savings even though you knew you were going to do a supplemental for the rest of the 6 months.

I guess I don't understand why you would think it would be a behavior change. This place adjusts so quickly to new ways to figure out what they want to accomplish in the short term that I am not sure Gramm-Rudman, or lack thereof, would make any difference except negative.

Dr. Aaron. I am not claiming a miracle will come about because of any change in procedural rules. That is the point I am trying to make. The procedural rules are not going to make a major difference. I do think that insofar as they have affected behavior, sequestration has been pernicious, and that getting rid of it would be a plus.

Will it turn every member of the House of Representatives into somebody who looks at the national well-being 20 years down the road rather than at the next election? Of course not. I am not suggesting it is a huge reform that will create farsightedness.

I am simply saying that one small influence, namely that of sequestration on congressional deliberations is bad. If you get rid of sequestration, you will have done a good day's work. If you can manage to encourage your colleagues to take a longer term horizon, you will have done a good term's work.

Mrs. Martin. I suspect many of us would not agree on the latter. We haven't really had any substantial sequestration. The fact is that this giant laboratory we are working in, which is the nicest part about this place, we have almost had phony sequestration, too. So we really do not know that there has been much behavior affected by it. If perhaps we had a year of sequestration and then saw results from that in behavior around here—I don't know the month of sequestration has changed behavior I have seen at all.

Dr. Aaron. I wonder whether you would have counted unspent food stamps if it were not for the accounting devices that were contained in Gramm-Rudman?

I wonder if you would have financed the savings and loan bailout in the same way as Congress actually did last year?

I wonder whether the infatuation with asset sales would have been as intense without the trappings of Gramm-Rudman?

Perhaps so. But I suspect the intensity of interest would have been turned down somewhat. I don't want to be interpreted as saying anything you are going to do with respect to Gramm-Rudman, the Panetta bill, the Russo bill, or any of these things, is a panacea. The political imperatives you described are going to be overwhelmingly strong in any event. The Members are going to have to exercise their responsibilities.

Mrs. **Martin**. Thank you.

Chairman **Derrick**. Thank you very much, Doctor, for your excellent testimony.

Dr. **Aaron**. Thank you.

Chairman **Derrick**. We will now hear from Dr. Rudy Penner, former Director of the Congressional Budget Office, and now a Senior Fellow at the Urban Institute.

I was on the committee of three that hired Rudy. Did you know that?

Mrs. **Martin**. I am not surprised.

Chairman **Derrick**. You did a good job, Rudy. Nice to see you. Thank you for coming, and being before the committee. We would be delighted to have you summarize your testimony, if you care to, or read it, whatever suits you.

STATEMENT OF RUDOLPH PENNER, SENIOR FELLOW, URBAN INSTITUTE

Dr. **Penner**. Thank you for the nice words, Mr. Chairman. I am pleased to have this opportunity to testify on the budget process.

Whenever I examine the history of the Federal budget process, I am struck by a profound paradox. Disorderly budget processes have often been associated with desirable budget outcomes and more rational processes have led to bad results. Looking at the situation in the late 19th century and early 20th century, before there was a Presidential budget, the process looked incoherent, but the outcome was highly disciplined. The budget was close to balance or in surplus unless there were very good reasons for deficit.

In contrast, the budget process reforms of the early 1920's and 1970's were applauded by most public policy analysts and appeared to provide a more coherent approach to administration and congressional decisionmaking. The addition of Gramm-Rudman was more controversial, but its supporters felt that it would provide extra discipline and quickly reinvigorate the old rule that budgets should be balanced. Yet, a process that appears orderly on paper has now led to extremely disorderly and dishonest results with only modest improvements in the deficit outlook.

Unfortunately, I cannot easily explain this paradox. It is my strong hunch, however, that budget outcomes—whether good or bad—are only tangentially related to process and have more to do with basic public attitudes toward spending and taxation. Nevertheless, it has to be said that some considerable progress has been made in reducing the deficit, which was very frightening in the early and mid-eighties.

Gramm-Rudman, I think, has helped a very little bit in imposing discipline and reducing the deficit, but it has also done a great deal of harm. The proliferation of gimmicks that it has spawned has destroyed the integrity of the budget process, and reduced, from already low levels, the confidence of investors and the ordinary public in Washington policymakers.

When the real deficit reducing actions have been enacted, their design has often been distorted to maximize their impact on the short run cash flow deficit and their effect on long term economic efficiency or equity, is considered only as an afterthought. Tax policy especially, has become a numbers game in which meeting an artificial revenue target takes precedence over more important, longer term considerations.

I strongly believe that for these reasons Gramm-Rudman should be repealed. I, therefore, applaud this aspect of H.R. 3929.

I also think that the pay-as-you-go philosophy embodied in H.R. 3929 provides a useful way of thinking about how to approach the task of deficit reduction initially, but I would not enshrine it in legislation. The Congress badly needs to regain the self-confidence that would allow it to approach the budget using common sense rather than mechanical rules. Mechanical rules often provide a good starting place for negotiations, but they always contain some irrationalities.

For example, H.R. 3929 considers pay-as-you-go rules over a 5-year time horizon. That is too short a time horizon for evaluating some decisions, for example, those considering changes in social security benefits. Important options should not be ruled out just because they do not fit the mechanical rule very well.

Even more important, if a set of mechanical rules does impose irrationalities, or even if it simply imposes more discipline than is thought wise by key players, there will immediately be an attempt to manipulate the rules. This would not be a problem if manipulation were costless, but as we have seen from the operation of Gramm-Rudman, manipulation has been very costly. First, because budget numbers are now so distorted that no one knows any longer what the true effects of fiscal policy are, and second, because some of the manipulation has imposed significant costs on taxpayers. Henry Aaron earlier provided some examples of such inefficiencies.

Moreover, the pay-as-you-go formula is fairly complicated and if it is applied rigidly, many score keeping controversies would arise. Just administering these rules is time consuming, even if they are applied in good faith. But, as already implied, they probably would not be typically used in good faith. Enormous effort, time, and intellectual ingenuity would be devoted to attempts to get around them. If that same time, effort and intellectual ingenuity were applied to solving real problems, I cannot help but believe that we would be better off. I would, therefore, use pay-as-you-go rules only as an informal guide to action.

Once the budget resolution was formulated in this manner, I do believe that the strengthening of points of order implied by H.R. 3929 combined with the earlier points of order contained in Gramm-Rudman, would be useful in enforcing the budget resolution. One of the more useful rules imposed by Gramm-Rudman was that requiring amendments to the budget resolution and various spending and tax bills to be deficit neutral, and I would certainly retain that approach.

I am essentially saying that it would be preferable to return to old approaches, strengthened with points of order, in the hope that that would also encourage a return to old budget mores. Although the 1974 process broke down in the mid-1980's, inducing the Congress to adopt Gramm-Rudman in frustration, I disagree a bit with Lou Fisher in that I do not believe that it was an inherently bad process. Indeed, I think that it could be made to work effectively. However, the criticisms that it was too complex and cumbersome had much merit and were heard long before the mid-1980's. Ironically, all of the reforms since then have increased the complexity and cumbersome nature of the process.

Going back to the old process would now represent a dramatic simplification. I believe that it would result in a vast improvement over the present approach, even if it happened to result in slightly less deficit reduction, and I do not believe that that would necessarily be the outcome.

But there are ways of simplifying the old approach, so that it is less time consuming. In a recent book, sponsored by former President Ford, Alan Abramson and I put forth a number of suggestions for reform. We tried to simplify the old process. Like Senator Domenici and Senator Johnston have suggested, we would have a Joint Budget Committee to present the same budget resolution to both Houses of Congress so that you wouldn't have these endless squabbles in conferences. Hopefully those resolutions presented would differ less.

We think it very important that the resolution contain only a few spending categories. You should operate with large categories, such as defense and entitlements, so that you don't have to debate narrow functions at that stage of the process. You used the term that the process should be considered more as an accounting mechanism, and I agree with that description.

I think that multiyear budgeting is over-sold, but there are large areas where it could be used in order to save a lot of time.

There are a lot of offices of the Government—the IRS, the GAO, CBO, GPO—that go on about the same year after year after year. You could set their budgets for a number of years. Having appropriations hearings on each every year seems a waste of time.

I agree very much with Lou Fisher's notion that the 1974 process has taken the spotlight and, therefore, the pressures off the President to some degree, and we do believe that ways should be found to give the President more power in the budget process.

Some say this would complicate and delay things. But summits have become a regular component of the process. We would like to see them start early. We would give the President enhanced rescission power. We would try a joint budget resolution that he or she would sign and thereby, we would hope, have more of a personal interest in enforcing.

Now, let me emphasize very strongly that we don't believe that these kinds of suggestions represent a panacea. There is no substitute for common sense laced with a considerable dose of political will. I think that a highly complex process, unfortunately, gets in the way of applying that common sense.

Thank you, Mr. Chairman.

[Dr. Penner's prepared statement follows:]

Statement of

Rudolph G. Penner

Senior Fellow

before the

House Rules Subcommittee
on the Legislative Process

March 21, 1990

•The views expressed are those of the author and do not necessarily reflect the views of the trustees, executives, or staff of The Urban Institute.

The Urban Institute
2100 M Street, N.W.
Washington, D.C. 20037

Mr. Chairman, members of the Subcommittee, I am pleased to have this opportunity to testify on H.R. 3929.

Whenever I examine the history of the federal budget process, I am struck by a profound paradox. Disorderly budget processes have often been associated with desirable budget outcomes and more rational processes have led to bad results. Looking at the situation in the late nineteenth century and early twentieth century, before there was a presidential budget, the process looked incoherent, but the outcome was highly disciplined. The budget was close to balance or in surplus unless there were very good reasons for a deficit. In contrast, the budget process reforms of the early 1920s and 1970s were applauded by most public policy analysts and appeared to provide a more coherent approach to Administration and Congressional decision making. The addition of Gramm-Rudman was more controversial, but its supporters felt that it would provide extra discipline and quickly reinvigorate the old rule that budgets should be balanced. Yet, a process that appears orderly on paper has now led to extremely disorderly and dishonest results with only modest improvements in the deficit outlook.

Unfortunately, I cannot easily explain this paradox. It is my strong hunch, however, that budget outcomes—whether good or bad—are only tangentially related to process and have more to do with basic public attitudes toward spending and taxation.

Today, the nation has committed more resources to the public sector than taxpayers are willing to pay for. The conservatives say the answer is obvious. Keep the tax burden from rising and cut back on what government does. The liberals say that what government does is just fine and indeed, it should do more. They allege that the problem is that many, mainly the well-to-do, are not paying their fair share and should be taxed more heavily.

But, although specific plans have been offered from time to time — and Chairman Rostenkowski's recent plan is particularly interesting and courageous — both sides often find it convenient to keep the debate from getting too explicit. Just what are the programs that conservatives would like to cut? Some are identified, but this side would prefer to let the problem be largely resolved by using optimistic assumptions regarding future economic growth and interest rates. Just who are the well-to-do that the liberals would like to tax more heavily? We all know that the main problem with the very rich is that there are not enough of them, and many, who would be considered well-to-do by others, think of themselves as being firmly in the middle class.

As the debate has stumbled on, both sides have had victories and defeats. The net result is, however, that the deficit outlook is not as good as it should be in this time of peace and prosperity, although it is considerably better than it was in the early 1980s. Conservatives have acquiesced in a series of tax increases since 1981, and the tax burden is expected by CBO to be 19.6 percent of the GNP in 1990, fully 1.5 percentage points above the recent low in 1984 and considerably more than 2 percentage points above where it would have been had the 1981 tax cuts been allowed to phase in fully. Liberals have, over the same period, accepted defense increases and considerable stringency in civilian spending, as noninterest, civilian spending fell from 15.1 to 13.4 percent of GNP between 1981 and 1990. Neither side, however, has wanted to take on the politically powerful elderly. Social security, other pensions, disability, and Medicare have risen from 7.3 to 7.6 percent of the GNP over the same period, implying that all other forms of noninterest, civilian spending have been squeezed down remarkably, from 7.8 to 5.8 percent of GNP.

Although Gramm-Rudman (GRH) has helped a little in imposing discipline and reducing the deficit, it has also done a great deal of harm. The proliferation of gimmicks that it has spawned has destroyed the integrity of the budget process, and reduced, from already low levels, the confidence of investors and the ordinary public in Washington policy makers. When real deficit reducing actions have been enacted, their design has often been distorted to maximize their impact on the short-run cash flow deficit and their effect on long-term economic efficiency or equity is considered only as an afterthought. Tax policy especially, has become a numbers game in which meeting an artificial revenue target takes precedence over more important, longer run considerations.

I strongly believe that for these reasons Gramm- Rudman should be repealed. I, therefore, applaud this aspect of H.R. 3929.

I might not reach that conclusion if we had not already made progress on the deficit. In the early 1980s, the situation was truly frightening, and there was some danger that the public debt and interest costs would soar out of control. But almost immediately, corrective actions began with TEFRA of 1982, the gas and social security tax increases of 1983, and DEFRA in 1984, all of which restrained an otherwise growing deficit and all of which were passed before GRH.

As we look ahead to the 1990s, a substantial peace dividend and the slowing growth of the elderly population should ease spending pressures compared to those existing in the 1980s. Deficit reduction should still be given highest priority, but not to the total exclusion of other considerations.

I think that the pay-as-you-go philosophy embodied in H.R. 3929 provides a useful way of thinking about how to approach the task of deficit reduction initially, but I would not enshrine it in legislation. The Congress badly needs to regain the self-confidence that would allow it to approach the budget using common sense rather than mechanical rules. Mechanical rules often provide a good starting place for negotiations, but they always contain some irrationalities. For example, H.R. 3929 considers pay-as-you-go rules over a five-year time horizon. That is too short a time horizon for evaluating some decisions, for example, those considering changes in social security benefits. Important options should not be ruled out just because they do not fit a mechanical rule very well. Even more important, if a set of mechanical rules does impose irrationalities, or even if it simply imposes more discipline than is thought wise by key players, there will immediately be an attempt to manipulate the rules. This would not be a problem if manipulation were costless, but as we have seen from the operation of Gramm-Rudman, manipulation has been very costly, first, because budget numbers are now so distorted that no one knows any longer what the true effects of fiscal policy are, and second, because some of the manipulation has imposed significant costs on taxpayers, e.g., forgoing high interest income and prepayment penalties in order to get loans prepaid early.

Moreover, the pay-as-you-go formula is fairly complicated and if it is applied rigidly, many scorekeeping controversies would arise. Just administering these rules is time consuming, even if they are applied in good faith. But, as already implied, they probably would not be typically used in good faith. Enormous effort, time, and intellectual ingenuity would be devoted to attempts to get around them. If that same time, effort and intellectual ingenuity were applied to solving real problems, I cannot help but believe that we would be better off. While pay-as-you-go rules are certainly superior to Gramm-Rudman rules, I would, therefore, use them as an informal guide to action rather than as a rigid legislated prescription. Once the budget resolution was formulated in this manner, I do believe that the strengthening of points of order implied by H.R. 3929 combined with the earlier points of order contained in Gramm-Rudman would be useful in enforcing the budget resolution. One of the more useful rules imposed by Gramm-Rudman was that requiring amendments to the budget resolution and various spending and tax bills to be deficit neutral, and I would certainly retain that approach.

I am essentially saying that it would be preferable to return to old approaches, strengthened with points of order, in the hope that that would also encourage a return to old budget mores. Although the 1974 budget process broke down in the mid-1980s, inducing the Congress to adopt Gramm-Rudman in frustration, I always felt that it was not an inherently bad process and that indeed, it could be made to work effectively. However, the criticisms that it was too complex and cumbersome had much merit and were heard long before the mid-1980s. Ironically, all of the reforms since then have increased the complexity and cumbersome nature of the process.

Going back to the old process would now represent a dramatic simplification. I believe that it would result in a vast improvement over the present approach, even if it happened to result in slightly less deficit reduction, and I do not believe that that would necessarily be the outcome.

But there are ways of simplifying the old approach, so that it is less time consuming. In a recent book, sponsored by former President Ford, Alan Abramson and I put forth a number of suggestions for reform. We recommend that a Joint Budget Committee present the same budget resolution to both houses of Congress, so that differences in conference would be less extreme and, it is hoped, could be resolved more quickly. That resolution should contain fewer spending categories, so that less time is spent arguing over narrow budget functions early in the process. More, although not universal, use should be made of multi-year resolutions where possible, and multi-year authorizations and appropriations could also be used more often, especially for government functions such as the IRS, the Bureau of Engraving, the General Accounting Office, and many other government offices and bureaus that do more or less the same thing year after year.

We also believe that the President should be given more power in the process. Some say that this would complicate and delay things, but summits have become a regular component of the process and we would like to see them start early. We would give the President enhanced recision power and shift from a concurrent to a joint budget resolution that he or she would either sign or veto, thus giving the President more of a stake in enforcing the resolution.

We do not believe that these suggestions represent a panacea. There is no substitute for common sense laced with a strong dose of political will. A highly complex process unfortunately gets in the way of common sense.

But the current process is, as stated before, not the main problem. Common sense suggests that, at this time, budget policy must impose some sacrifices on the American people. Therefore, they will not be enamored with the result unless they can be persuaded that it is in the long-run interests of the nation.

The irony is that the required sacrifice no longer seems enormous given a probable peace dividend and the past progress on the deficit. For example, if defense spending authority could be kept more or less constant in nominal dollars; if the elderly, who have been treated so generously in this time of budget stringency, could be persuaded to have social security taxed as though it was a private pension; if some of the programs on President Bush's hit list could be finally terminated; and if overall tax burdens could be increased by a further 0.5 percent of GNP or by about 2.5 percent of the levels projected for 1995, there would be room for restrained spending increases on high priority items and a modest unified budget surplus in the last half of the decade. Other packages, like Chairman Rostenkowski's somewhat more rapid deficit reduction, could, of course, be considered, but my main point is that we are not talking about extreme austerity.

In conclusion, I do believe that the pay-as-you-go approach is superior to Gramm-Rudman's approach, but it is still very complicated. That makes its administration time consuming and subject to manipulation. I, therefore, conclude that it is preferable as a guide to action rather than as a rigidly imposed rule, and I would return to the 1974 process with its enforcement powers strengthened somewhat. I think that that would be enough to make it superior to the current approach, but there are a variety of ways that it could be simplified and that also should be considered.

Chairman **Derrick**. Thank you.

Let me ask you something. Suppose we do away with the Ways and Means Committee, do away with the Appropriations Committee.

Mrs. **Martin**. Finally a good idea.

Chairman **Derrick**. Do away with the Budget Committee.

Mrs. **Martin**. A better one.

Chairman **Derrick**. And have one committee, call it what you want, who comes forth with a budget. It comes on the floor and has priority over everything else. You debate it, deal with it, pass it out, send it over to the Senate. What is wrong with that?

Dr. **Penner**. I think that is a wonderful idea. Indeed, we had something very similar to that before the Civil War. I don't want to claim to be a scholarly historian of the process, but as I understand it, before the Civil War, the Ways and Means Committee truly controlled both ways and means. It did the spending, and the revenue raising. After the Civil War, the appropriations function was spun off.

From what I have read, it seemed almost a casual decision to split up the committee members of the Ways and Means Committee at the time felt enormously overburdened during the Reconstruction period and so they created a separate appropriations function, so that the work load could be shared.

The main reason I liked the 1974 process is, as Henry Aaron said, it did provide a place for considering spending and revenues together. If you could have one committee that would do that, I would love it. You could do away with the authorization committees as well.

Chairman **Derrick**. Well, I don't think you could do away with the authorization committees, but you know, I do think that makes a tremendous amount of sense. It always has. Of course, it is laughable to think we could get it through. But as I have always perceived it, if the Appropriations Committee particularly, and the Ways and Means Committee to some degree, were doing in the early 1970's what they were originally charged with, and that is the big picture—especially the Appropriations Committee—I don't think we would have needed the Budget Committee.

Dr. **Penner**. I think that is exactly right.

Chairman **Derrick**. If you want to carry that one step further, how can you sensibly make a decision on spending if you at the same time can't make that decision on revenue? But that doesn't have a lot to do with what we're talking about here this morning.

Dr. **Penner**. Frankly, I think it has everything to do with it. If I had thought that that was even remotely practical, I think I might have come here and advocated it. I guess the way I read the politics, that will take a while to do.

Chairman **Derrick**. So what I have gotten out of the hearing yesterday to a large degree, what you three gentlemen have said, you think that H.R. 3929 is a pretty good bill, but the reason you think so is because it has less leverage, it is less offensive to the process. That most of you, if you are just downright honest about it, you think we would do away with Gramm-Rudman, all that stuff, and let it take—I realize you didn't say that.

Dr. **Penner**. I certainly wanted to say that we should do away with the sequestration part of Gramm-Rudman. There are certain points of order in Gramm-Rudman that we should keep, however.

Chairman **Derrick**. I think for a practical matter, we have done away with that.

Dr. **Penner**. Well, Mrs. Martin made the point that we have never really used sequestration. There was a little one legislated in 1984 and a trivial one last year, but I don't think that the fact that it has not been used in a serious way means it has not had a bad result. It seems to me you have a very severe punishment for not meeting the deficit target on paper. The punishment is this horrible thing called sequestration. The punishment is really more severe than the crime.

The wonderful thing about Gramm-Rudman is you just have to forecast that you will hit the target. You don't actually have to do it. If you don't make the forecast, you are confronted by this huge penalty. It is as though we passed the death penalty for shoplifting. You wouldn't see many people arrested for shoplifting any more. You would rather see a dishonest approach to enforcing that law.

This spectre of sequestration is what really pressures the system into outright lying. I agree strongly with Mrs. Martin's other point that there have been budget gimmicks as long as there have been budgets. There have been rosy assumptions and all of those things. But I strongly believe that since the passage of Gramm-Rudman, we have crossed the line from what I would call fibbing in order to expedite a difficult process, into outright lying.

Chairman **Derrick**. The reason we are here, as I understand it, is that the lie that we will need for this current budget is, believe it or not, even larger than we can come up with. It scares us. We are in it so big, it is so big, we are scared to deal with it. It has even gotten too big for the Congress.

Mr. Wheat?

Mr. **Wheat**. At least the bill would require more imagination in the upcoming years.

I don't really have any questions. I have gotten the same sense that Butler has, the chairman has, from the hearings. I appreciate all three of you gentleman testifying today.

We do have a distortion of what ought to be our process, it seems clear to me. We talk about political reality. Whether it is having a super-committee—call it what you may, super-budget, Energy and Commerce—that that is not likely. It is not likely we are going to have a joint House-Senate committee to introduce a budget, as Dr. Penner suggested. It may not be likely that we are going to make any significant reform in the budget process inasmuch as this is still the same Congress that passed Gramm-Rudman, that has created the distortions to begin with.

Chairman **Derrick**. Let me just say this: You know, you get back to my original thought on this thing. I think that in my kind of micro-way, that is what we tried to do with reconciliation. I think that that is proof of what I am talking about here.

Dr. **Penner**. Well, reconciliation typically focuses on entitlements and tax laws.

Chairman DERRICK. It is supposed to. It went a lot further. You know, here for several years, that was the only ball game in town—reconciliation, and the CR. I think CR is the same thing.

But anyway, go ahead.

Dr. PENNER. I was going to make the point, in reference to your earlier statement, that there is a sense in which we are moving back to the old fashioned approach in that Ways and Means and Senate Finance are commanding control over a larger and larger portion of the total spending and the budget, because of their role in social security, welfare, and so on.

But I don't think that necessarily improves things. Some political scientists—notably John Cogan—have argued that that has really biased our system in the direction of relying very heavily on payroll taxes, because payroll taxes finance the spending programs of Ways and Means largely. So, for that reason, they give them preference over regular income taxes.

I am not sure that that is true, but it is something to worry about, given the current situation.

Chairman DERRICK. Mrs. Martin?

Mrs. MARTIN. I suspect I may be coming to a slightly different conclusion. I wonder if we are reaching a point where it is just too big. You know, you talk about—what we are talking about to some degree, are management tools. We can blame Gramm-Rudman, or talk about a super-committee. All of those may be nice ideas, good ideas, concentrate on the process, but if you really think around here, the push is to there will be a certain amount you spend, how you raise it. We can all argue.

I wonder—and we have no model, it is not as if we have an econometric or socio-political model. It is just so big.

It is just too big to manage from—as a Member of Congress, all the programs, all the officers, all the time you do, good hearted, good, well meaning, extraordinarily bright people. It is just too big.

It is getting so big that none of us, if anybody admitted publicly they are really looking at programs to see if they work, really can do the trail—even the paper trails, if you didn't want to look at substance, but just the money.

Dr. PENNER. It is not only big, it is very complicated. Ordinary folks have asked me, how much would Rostenkowski's COLA freeze cost me?

To answer, I would have to ask a large number of questions regarding their personal finances and time of retirement and I would have to forecast the inflation rate. It is just very hard to answer very simple questions about matters that citizens have some right to understand. We have just made our laws very, very complicated.

But on the other hand, I do have to say, having worked here almost 4 years, that it would not be that hard to improve the management of the place quite considerably. I was always struck, frankly, with how much time Members are forced to waste. There is no other way to put it.

Mrs. MARTIN. Although, for a minute, Rudy—I have noted sometimes, what others define as waste are life blood to the Members.

Dr. PENNER. Well, we could talk about that at length.

Chairman DERRICK. We will have hearings next month on that.

Mrs. MARTIN. I have my own suggestions on waste.

I was saying to our chairman early on that probably one of the great pleasures of your life was not facing Butler and me on a regular basis on the Budget Committee.

Chairman **DERRICK**. Thank you very much, Rudy.

I want to thank all of you very much. It was excellent testimony. I think it is really going to have an impact. I think we are really going to do something.

Thank you very much.

[Whereupon, at 11:10 a.m., the subcommittee was adjourned subject to the call of the Chair.]

H.R. 3929, THE BUDGET PROCESS REFORM ACT OF 1990

THURSDAY, APRIL 19, 1990

House of Representatives,
Subcommittee on the Legislative Process,
Committee on Rules,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room H-313, the Capitol, Hon. Butler Derrick (chairman of the subcommittee) presiding.

Present: Representatives Derrick, Wheat and Martin.

OPENING STATEMENT OF HON. BUTLER DERRICK, CHAIRMAN OF THE SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Chairman **Derrick**. Come to order.

This morning we continue our hearings on H.R. 3929, the Budget Process Reform Act of 1990. We will receive testimony from three Federal agencies with special responsibilities in the budget process. We will also hear from a very distinguished outside expert, Dr. Alice Rivlin, former Director of the Congressional Budget Office.

We are delighted that she could join us today and look forward to hearing from all of you.

Mr. William Diefenderfer, have a seat, and I will yield to my colleague.

OPENING STATEMENT OF HON. LYNN MARTIN, RANKING MINORITY MEMBER OF THE SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Mrs. **Martin**. Mr. Chairman, I would like to briefly commend you for convening this second round of hearings on the budget process, and reiterate my hope that we will consider other proposals before we complete our work.

In that regard, I would like to thank our first witness, Bill Diefenderfer of OMB for the administration's warm support for H.R. 3271, the enhanced rescission bill, which I managed to work out—not really, it is a whole group of people, Congressmen Tauke, Penny, Craig and Senator Coats, and I would like to welcome the other witnesses today, Comptroller General, Mr. Bowsher, and, of course, the former Director of the CBO, Mr. Reischauer and Dr. Rivlin.

I regret that a previous commitment won't let me stay for all of the hearing, and it is a very serious one, but I will be reading all of your statements and I want to apologize in advance for having to leave for this.

Finally, Mr. Chairman, I ask unanimous consent to enter into the hearing record an article by Mr. Daniel Mitchell, published in this Spring's issue of the Heritage Foundation publication, Policy Review.

The article is entitled, "The Grim Truth About Gramm-Rudman," and demonstrates in Mitchell's words that "Gramm-Rudman has been a spectacular success." Whereas Federal spending in inflation-adjusted dollars grew at an annual rate of 3.6 percent in the 1970's and 4 percent in 1980 and 1985. "Since Gramm-Rudman the real growth of Federal spending has fallen to 1.4 percent annually, well below the growth of the national economy."

I look forward to this hearing.

[The article referred to by Mrs. Martin follows:]

THE GRIM TRUTH ABOUT GRAMM-RUDMAN

The Deficit Law Is Working

DANIEL J. MITCHELL

Most Washington budget "experts" make fun of the Gramm-Rudman-Hollings Balanced Budget Act. The chairmen of the budget committees in the House and Senate, Representative Leon Panetta (D–Cal.) and Senator James Sasser (D–Tenn.), have introduced legislation to repeal the law. Senator Ernest Hollings (D–S.C.) has openly disassociated himself from the legislation he co-sponsored. Newspaper articles routinely assert that Gramm-Rudman has failed because the deficit at the end of each fiscal year has always exceeded the Gramm-Rudman target.

But Gramm-Rudman has been a spectacular success. Indeed, the Washington establishment wants to repeal Gramm-Rudman *because* it has worked. Federal spending (in inflation-adjusted dollars) grew by 3.6 percent annually in the 1970s, and by 4 percent a year between 1980 and 1985. Since Gramm-Rudman was enacted in 1985, the real growth of federal spending has fallen to 1.4 percent annually, well below the growth of the national economy.

Gramm-Rudman's automatic spending control mechanism, known as sequestration, has radically altered the dynamics of the budget process. If Congress fails to produce a budget that meets Gramm-Rudman deficit targets, sequestration automatically reduces spending to the legally required level. As a result, Congress's ability to increase spending has been sharply curtailed. Legislators must either raise taxes to pay for new programs, as happened in the case of catastrophic care, or find spending offsets, as with child-care and anti-drug funding. The eventual repeal of the catastrophic care program showed that beneficiaries of government spending are much less enthusiastic if they have to pay for the program, and the internecine warfare in the Democratic Party over child-care shows offsets are not that easy to agree upon either.

None of this would have happened without Gramm-Rudman. More generally, Gramm-Rudman has given President Bush the leverage he needs to fulfill his promise of deficit reduction without a tax increase. So long as the president is prepared to veto any tax increase, Congress has little choice but to enact an acceptable budget. Should they fail to do so, the president can simply allow sequestration to occur automatically.

Leviathan's Gramm Reaper

President Reagan, for all his anti-government rhetoric, was unable to keep spending growth under control before Gramm-Rudman was enacted in 1985. The five years since Gramm-Rudman became law are a different story. The growth of federal spending has been significantly slowed compared with the first half of the 1980s.

As shown in **Table 1**, federal spending increased by an average of more than 9.9 percent annually between 1980 and 1985. Since Gramm-Rudman was adopted, however, annual spending increases have averaged about 4.8 percent.

After adjusting for inflation, the impact of Gramm-Rudman is even more striking. Federal spending in real terms grew three times faster before Gramm-Rudman than it has since Gramm-Rudman. **Table 2** repeats the exercise in **Table 1** with the budget numbers in inflation-adjusted 1982 dollars.

What is more important, Gramm-Rudman has helped reduce the size of government relative to the size of the productive sector of the economy. In every year but one between 1980 and 1985, government spending as a percentage of GNP was higher than it was the year before, with political control over the economy increasing by an average of .36 percentage points annually. On the other hand, as **Table 3** points out, government spending as a percentage of GNP has declined by an average of .42 percentage points each year since Gramm-Rudman was adopted.

Deficit Slashed

Gramm-Rudman has also reduced the deficit. In four of the five years before Gramm-Rudman, the deficit

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DANIEL J. MITCHELL, *formerly an economist on the staff of Senator Bob Packwood (R–Oregon), is the John M. Olin senior fellow in political economy at The Heritage Foundation.*

increased. Since Gramm-Rudman was enacted, however, the deficit has fallen three of the past five years (Table 4). Using a more economically relevant measure, the deficit as a percentage of GNP increased in three of the five years before Gramm-Rudman. Since the law was enacted, however, the deficit as a percentage of GNP has fallen every year. Depending on how the economy performs this year, the deficit could fall below 2.4 percent of GNP for only the second time since 1974.

A better way to illustrate how Gramm-Rudman has reduced the deficit is to compare actual performance in 1989 and 1990 with deficit projections by the Congressional Budget Office (CBO) *before* Gramm-Rudman was enacted. In 1985, CBO estimated that the deficit in 1989 would be $272 billion and consume 5.2 percent of GNP. Things were supposed to get even worse in 1990, with the deficit climbing to $296 billion and 5.3 percent of GNP. In reality, Gramm-Rudman became law and the 1989 deficit was $152 billion, $120 billion below the Congressional Budget Office estimate. The 1990 deficit is not known yet, but if the current estimate of $123.8 billion is even close, the deficit easily will be less than half the amount CBO had projected. The deficit as a percentage of GNP will also be well below the CBO estimate.

Two Loopholes

Actual deficits at the end of each fiscal year have consistently exceeded the Gramm-Rudman target. The deficit in 1989 was $152 billion, $16 billion above the $136 billion target. The administration projects that the 1990 budget deficit will be $123 billion, $23 billion over target.

This overshooting of the target results from two loopholes in the law, but it does not mean that Gramm-Rudman has failed. Loophole number one is that Gramm-Rudman does not require that the actual deficit equal the deficit target. Instead, it mandates that the *projected* deficit as of October 15, two weeks into the new fiscal year, be no more than $10 billion over the target.

Table 1

Annual Spending Increases During the 1980s

Year	Spending ($ billions)	Annual Growth %	
1980	590.9	—	
1981	678.2	14.8	Five Year Average Growth = 9.9 percent
1982	745.7	10.0	
1983	808.3	8.4	
1984	851.8	5.4	
1985	946.3	11.1	
1986	990.3	4.6	Five Year Average Growth = 4.8 percent
1987	1003.8	1.4	
1988	1064.0	6.0	
1989	1142.6	7.4	
1990*	1197.2	4.8	

*Estimate
Source: Budget of the United States Government

If it turns out that the economic assumptions underlying the deficit projection are too optimistic, the actual deficit will be higher than the target. Congress understands this relationship, which is why, despite constant complaints about excessively optimistic economic assumptions from the White House, legislators adopt the administration's forecast. More optimistic economic assumptions mean less spending restraint is needed to bring the projected deficit within $10 billion of the target (primarily because a stronger economy generates more tax revenue). If the economy's performance turns out to be less robust than projected, there is no way to force Congress to adjust spending totals after the October 15 sequester deadline.

Gramm-Rudman has given President Bush the leverage he needs to fulfill his promise of deficit reduction without a tax increase.

The second loophole is that once October 15 has come and gone Congress can increase spending for that fiscal year without triggering a sequester. The only significant barrier that stands in the way of adding to the budget after October 15 is the 60-vote point of order in the Senate. Unfortunately, the big-spenders in Congress are quite adept at using clever combinations of pork-barrel projects and funding of "emergency" needs such as programs for homelessness and drugs, and often get the 60 votes they need. What is the result? Every dollar of added spending after October 15 causes the actual deficit to be that much higher than the deficit target.

Still Some Gimmicks

Another weakness of Gramm-Rudman is that it has encouraged a certain amount of budgetary sleight of hand. Congress, often in cooperation with the administration, has shifted government paydays and Medicare and farm price support payment dates from one fiscal year to another. Last year, Congress took the postal service off budget so it could no longer be counted in the deficit calculation, allowing Congress to claim a "saving" of $1.7 billion, even though the Treasury Department must borrow just as much money. To add insult to injury, once the postal service was off budget and its spending no longer counted, Congress added a provision requiring the postal service to make a one-time $400 million payment to an on-budget part of the government, thereby creating the illusion of an additional $400 million of deficit reduction. The farm credit system was also taken off budget, a move that generated another

$400 million of phony savings.

Obviously, Gramm-Rudman is not perfect. But government spending and deficits are lower than they would have been in the absence of the law.

New Political Dynamics

Overshooting of the target results from two loopholes in the law, but does not mean that Gramm-Rudman has failed.

Before Gramm-Rudman, the proponents of higher spending had the upper hand. Since there was no objective limit on the deficit, they could enact new spending programs and increase funding for existing programs with little difficulty. Republicans were often put in the position of then raising taxes because of concern over the deficit. This pattern—Republicans raising taxes so Democrats could raise spending—did little to break the Democratic Party's lock on political power.

By breaking with traditional Republicans and advocating large tax cuts, Ronald Reagan was able to capture the presidency and give Republicans control of the Senate. Unfortunately, this did not lead to the reductions in government spending so many had hoped would occur. Indeed, Reagan and the Republicans passed three large tax increases in 1982, 1983, and 1984. As was the case in the past, however, these tax increases were not used for deficit reduction; they simply contributed to the expansion of existing government programs.

Table 2

Annual Spending Increases During the 1980s
(constant 1982 dollars)

Year	Spending ($ billions)	Annual Growth %	
1980	699.1	—	
1981	726.5	3.9	Five Year
1982	745.7	2.6	Average
1983	775.0	3.9	Growth =
1984	788.1	1.7	4.0 percent
1985	849.6	7.8	
1986	867.5	2.1	Five Year
1987	857.8	-1.1	Average
1988	879.6	2.5	Growth =
1989	907.1	3.1	1.4 percent
1990*	912.2	0.6	

*Estimate
Source: Budget of the United States Government

Gramm-Rudman changed all that in 1985. By putting a cap on each year's deficit, Gramm-Rudman also limited that year's spending because legislators can spend no more than the sum of projected revenues plus the deficit target (including the $10 billion margin of error). The only way Congress can increase spending beyond that level is either to increase revenues or the deficit target. The hidden spending cap, however, is only half of Gramm-Rudman's secret. The real key to making Gramm-Rudman work is *no tax increases*. If the prohibition on tax increases ends, the spending cap becomes meaningless. President Bush seems to understand this point, surprising many with the strength of his commitment to battle higher taxes. The administration's strong stand against taxes is probably one reason Democrats are so anxious to repeal Gramm-Rudman. Fortunately, President Bush would almost certainly veto any effort to undo Gramm-Rudman.

Understanding this one-to-one relationship between higher taxes and higher spending also exposes the big lie used by proponents of higher taxes. Almost every proposal to increase the tax burden on America is wrapped in pious claims that the additional tax revenue will be used to reduce the deficit. Yet, so long as Gramm-Rudman is the law of the land, every dollar of higher taxes will mean an additional dollar of higher spending. Simply stated, the deficit is already set by law; the only effect of higher taxes would be to allow Congress the freedom to meet that deficit target at a higher level of spending.

Adjustments for Social Security

The issue of deficit reduction has been confused by claims that the Social Security "surplus" is masking the

Table 3

Federal Government Spending
as a Percentage of GNP

Year	Spending (% of GNP)	Change	
1980	22.1	—	
1981	22.7	+0.6	Five year
1982	23.8	+1.1	Average
1983	24.3	+0.5	Growth =
1984	23.1	-1.2	+0.36 percentage
1985	23.9	+0.8	points
1986	23.7	-0.2	
1987	22.7	-1.0	Five year
1988	22.2	-0.5	Average
1989	22.2	—	Shrinkage =
1990	21.8	-0.4	–0.42 percentage points

*Estimate
Source: Budget of the United States Government

true size of the deficit. It is true that Social Security tax revenues are exceeding Social Security outlays. The deficit, however, is supposed to measure how much money government will borrow from private credit markets. As such, all government spending and taxes, including Social Security, should be included. Any other measurement would deliberately misrepresent the true extent of government borrowing. The Social Security system belongs in the unified budget.

Some say that Social Security is special because the 1977 and 1983 tax increases were specifically enacted to build a reserve that could be used to pay for the baby boom's retirement, so we would not have to rely on a "pay-as-you-go" system. Perhaps that is how the tax increases were justified, but it is not how the Social Security system actually works. In years that Social Security tax revenues exceed outlays, the Social Security system exchanges its excess cash with the Treasury for U.S. government bonds (IOUs), which are deposited in the Trust Fund. When Social Security outlays begin to exceed revenues early next century, the Trust Fund will redeem those bonds to get the cash needed to pay retirement benefits. The relevant question, of course, is where does the Treasury get the cash with which to redeem the bonds? The government will have either to raise taxes, reduce benefits, or issue new debt, just as would be the case with a pay-as-you-go system.

Recent proposals to reduce the burden of payroll taxes have led to some concern that a large tax cut could undermine Gramm-Rudman. If the price of a payroll tax cut were repeal of Gramm-Rudman, the long-term fiscal policy impact would probably be negative. Fortunately, this need not be the case. If Congress is unwilling to come up with spending reductions to offset the revenue loss, the yearly deficit targets could be adjusted to account for the lower levels of tax revenue, as Senator Kasten (R–Wisc.) has proposed in his bill to lower payroll taxes. If taxes are lowered and the deficit targets are changed, the economy would benefit from a permanently lower level of taxes and spending in exchange for a temporarily higher deficit.

The 1990 deficit will be less than half what the Congressional Budget Office projected in 1985.

Table 4

Deficits During the 1980s

Year	Deficit ($ billions)	Deficit (% of GNP)
1980	73.8	2.8
1981	78.9	2.6
1982	127.9	4.1
1983	207.8	6.3
1984	185.3	5.0
1985	212.3	5.4
1986	221.2	5.3
1987	149.7	3.4
1988	155.1	3.2
1989	152.0	2.9
1990	123.8	2.3

*Estimate

Source: Budget of the United States Government, Historical Tables

Bush's Opportunity

In light of Gramm-Rudman's success, an interesting question is why politicians allowed it to become law. Public Choice theory tells us that politicians and bureaucrats will instinctively resist policies that limit the size and scope of their power. Yet Gramm-Rudman, which has succeeded in arresting the size of government where other efforts failed, only became law because it received support from a majority of both the House and the Senate and was signed into law by President Reagan. Many lawmakers probably supported Gramm-Rudman because they feared voters would hold them accountable for voting against a measure designed to reduce the deficit. Others probably figured the law wouldn't work and it would be immediately repealed. Still others may have felt genuinely concerned that the rising burden of deficit spending, left unchecked, would wreak havoc with our economy. If so, this is an example of sound policy triumphing over political self-interest and the lust for power.

Whatever the source and reason, the passage of Gramm-Rudman marked a turning point in the battle of the budget. With the right strategy—refusal to capitulate on taxes and willingness to use the sequester if necessary—President Bush can accomplish more to bring spending under control than his predecessor ever did (though not for lack of trying). The rewards of this policy—higher economic growth, additional job creation, and a more competitive America—would come about as government's control over the nation's resources diminished.

Indeed, the only shortcoming is that Gramm-Rudman will end in 1993. While there is always a possibility that politicians will "slip" the targets again and extend the balanced budget goal back a year or two, at some point Gramm-Rudman will accomplish its goal of balancing the budget. Then, conservatives need to be ready with tax-cut proposals, accompanied by new deficit-reduction requirements. Gramm-Rudman has succeeded in reducing the relative size of government, but only constant vigilance will keep Leviathan under control.

Chairman. DERRICK. Mr. Wheat.

Mr. WHEAT. I have no opening statement.

Chairman. DERRICK. We would be glad to put your entire statement in the record if you wish to summarize.

STATEMENT OF WILLIAM DIEFENDERFER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. DIEFENDERFER. I have about three pages double spaced, which I would like to speak, and the balance of this statement, which is a more in-depth statement of the summary, and I appreciate you putting that in the record.

First, Chairman Derrick and Ranking Minority Member Martin, Mr. Wheat, it is a pleasure to appear before you today to testify about Federal budget process reform issues.

Over the past year, certain weaknesses in the current budget process have been recognized and the Administration has supported the following specific changes:

GRAMM-RUDMAN-HOLLINGS REFORM

While the law has many flaws, the threat of sequester does provide a measure of discipline on the process. We would like to see the law strengthened by including a second sequester during the fiscal year. This would close the principle loophole in Gramm-Rudman-Hollings, which is that spending increases and revenue reductions enacted after October 15 do not count against the deficit target and do not trigger a sequester.

LEGISLATIVE LINE-ITEM VETO

Congresswoman Martin introduced this in the House. President Bush strongly supports a form of enhanced rescission authority that has been called "legislative line-item veto." This form of veto authority would provide the President with a realistic option to disapprove special interest items, while preserving the right of Congress to overturn his veto by a vote on each veto.

JOINT BUDGET RESOLUTION

The annual budget resolution should be converted from a concurrent resolution, which does not need the President's approval, to a joint resolution, which does. This would ensure that budget negotiations, similar to those leading to the Bipartisan Budget Agreements of recent years, would occur early in the process rather than later.

BIENNIAL BUDGETING

The budget process should cover two years. Biennial budgeting would free time for both Congress and the executive to pursue improved program management and evaluation.

SUPPLEMENTAL APPROPRIATIONS RESTRAINTS

Formal procedures are needed to ensure restraint in the use of supplemental appropriations. Supplementals have the potential to undermine any discipline exercised during the regular appropriations process.

I might note here, parenthetically, that over the last 2 years, we have had some cooperation of significance, both with the House appropriators and the Senate appropriators in offsetting the cost of supplemental appropriations.

In the area of credit reform, a credit subsidy is a method for the Government to achieve its policy objectives, just like the purchase of goods and services, transfer payments, and grants of other programs. The administration has proposed a change in the treatment of credit programs that would result in measuring credit activity on an expenditure basis equivalent to other Federal spending.

SOCIAL SECURITY INTEGRITY AND DEBT REDUCTION

The administration has proposed legislation that would preserve the buildup of social security reserves, extend the Gramm-Rudman-Hollings requirement for a balanced budget, and reduce the Nation's publicly held debt.

BALANCED BUDGET AMENDMENT

While the Gramm-Rudman-Hollings' balanced budget law has brought some additional discipline to the process, it has not been enough. The President has called for a constitutional requirement to balance the budget in order to counter forces demanding higher spending for particular purposes.

CONSTITUTIONAL LINE-ITEM VETO AUTHORITY

The line-item veto is a tool the President, as representative of the general interest, would use to curb the demands for more and more special interest spending.

Under the current system, the President faces the choice of vetoing an entire bill, which is usually not a realistic choice or proposing a rescission, which usually is ignored by Congress.

Mr. Chairman, that ends my introductory remarks. The balance of my statement for the record is provided in a supplement. I would be pleased to respond to any questions you may have.

[Mr. Diefenderfer's prepared statement follows:]

INTRODUCTORY STATEMENT

PRESENTED BEFORE
THE SUBCOMMITTEE ON LEGISLATIVE PROCESS

OF THE HOUSE RULES COMMITTEE

BY

WILLIAM M. DIEFENDERFER
DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

APRIL 19, 1990

Chairman Derrick, Ranking Minority Member Martin, and distinguished members of the Subcommittee on Legislative Process, it is a pleasure to appear before you today to discuss Federal budget process reform issues.

With your permission, I would like to make a few summary points and ask that my statement and the additional materials attached thereto be entered into the record.

Over the past year certain weaknesses in the current budget process have been recognized and the Administration has supported the following specific changes:

Gramm-Rudman-Hollings Reform. While the law has many flaws, the threat of sequester does provide a measure of discipline on the process. We would like to see the law strengthened by including, a second sequester during the fiscal year. This would close the principle loophole in G-R-H, which is that spending increases and revenue reductions enacted after October 15 do not count against the deficit target and do not trigger a sequester.

Legislative Line-item Veto. President Bush strongly supports a form of enhanced rescission authority that has been called "legislative line-item veto." This form of veto authority would provide the President with a realistic option to disapprove special interest items, while preserving the right of Congress to overturn his veto by a vote on each veto.

Joint Budget Resolution. The annual budget resolution should be converted from a concurrent resolution, which does not need the President's approval, to a joint resolution, which does. This would ensure that budget negotiations, similar to those leading to the Bipartisan Budget Agreements of recent years, would occur early in the process.

Biennial Budgeting. The budget process should cover 2 years. Biennial budgeting would free time for both Congress and the executive to pursue improved program management.

Supplemental Appropriations Restraints. Formal procedures are needed to ensure restraint in the use of supplemental appropriations. Supplementals have the potential to undermine any discipline exercised during the regular appropriations process.

Credit Reform. A credit subsidy is a method for the Government to achieve its policy objectives, just like the purchase of goods and services, transfer payments, and grants of other programs. The Administration has proposed a change in the treatment of credit programs that would result in measuring credit activity on an expenditure basis equivalent to other Federal spending.

Social Security Integrity and Debt Reduction. The Administration has proposed legislation that would preserve the build up of social security reserves, extend the G-R-H requirement for a balanced budget, and reduce the Nation's publicly held debt.

Balanced Budget Amendment. While the Gramm-Rudman-Hollings balanced budget law has brought some additional discipline to the process, it has not been enough. The President has called for a constitutional requirement to balance the budget in order to counter forces demanding higher spending for particular purposes.

Constitutional Line-item Veto Authority. The line-item veto is a tool the President, as representative of the general interest, would use to curb the demands for more and more special interest spending. Under the current system, the President faces the choice of vetoing an entire bill, which is usually not a realistic choice or proposing a rescission, which usually is ignored by Congress.

Mr. Chairman, that ends my introductory remarks. The balance of my statement for the record is provided in a supplement. I would be pleased to respond to any questions you may have.

ATTACHMENT FOR THE RECORD

Gramm-Rudman-Hollings Reform

The question of repealing or modifying Gramm-Rudman-Hollings, or replacing it with a pay-as-you-go or other deficit reduction process has been raised. While the existing law has many flaws, the threat of sequester does provide a measure of discipline on the process. Some proposed substitutes for Gramm-Rudman-Hollings would rely on more stringent parliamentary rules. While stronger rules may be appropriate in some cases, they can be bypassed relatively easily. We believe G-R-H should be strengthened and continued beyond FY 1993.

In discussing the need to restrain supplemental appropriations, I alluded to the principal loophole in Gramm-Rudman-Hollings, which is that spending increases and revenue reductions enacted after October 15 do not count against the deficit target and do not trigger a sequester. We would like to see the law modified to include a second sequester trigger date, preferably early in the calendar year. Any deficit effect of new policy actions would be added to the calculation, as would the effects of updated economic and technical assumptions. If the new sequester calculation were above the trigger point, a sequester would be imposed or the original sequester would be increased.

We also think it should be more difficult for Congress to restore sequester savings once they are achieved. Under the current procedures, it is relatively painless for Congress to fail to meet the deficit target and allow a sequester to be ordered in October, then cancel the sequester later, with or without real budget savings to reduce the deficit. A requirement for a supermajority vote to cancel a sequester would have two beneficial effects:

- It would create a stronger incentive to make the necessary reductions to avoid a sequester in the first place; and,
- Should a sequester occur, it would be more difficult for Congress to restore the savings achieved by that means.

We think Gramm-Rudman-Hollings should be extended beyond FY 1993, which is when the current law requires the budget to be balanced, to require balance for each year thereafter.

Legislative Line-item Veto

The current rescission authority is ineffective, because rescission proposals can be killed by simple inaction on the part of Congress. Indeed, most of the rescissions proposed by Presidents over the 15 years since the passage of the Congressional Budget and Impoundment Control Act of 1974 have been killed without a vote. President Bush strongly supports a form of enhanced rescission authority that was proposed last year by Senators Coats and McCain and forty-one others, as S. 1553. In the House, a companion bill was introduced by Representatives Tauke, Penny, Craig, and Martin, as H.R. 3271. It has been called "legislative line-item veto." This form of veto authority would provide the President with a realistic option to disapprove special interest items, while preserving the right of Congress to overturn his veto by vote on each rescission.

Joint Budget Resolution

The annual budget resolution should be converted from a concurrent resolution, which does not need the President's approval, to a joint resolution, which does. This would ensure that budget negotiations, similar to those leading to the Bipartisan Budget Agreements of recent years, would occur early in the process. This should result in less conflict later over individual appropriations bills, revenue measures, and spending measures included in reconciliation bills.

Biennial Budgeting

The budget process should cover 2 years. Biennial budgeting would free time for both Congress and the executive to pursue improved program management. Several approaches have been proposed. Ideally, a biennial process should result in appropriations for all of Government that cover each of two years. Short of that, something akin to the 1987 Bipartisan Budget Agreement, which resulted in agreement on targets for broad budget categories for two years, would be helpful. If you recall, that agreement was reached too late in 1987 to affect the budget process for that year. That is why something like a joint budget resolution is needed to ensure that negotiations occur much earlier. However, the two-year coverage of the agreement did help the 1988 budget process go more smoothly. That year, for the first time in a long time, all thirteen of the appropriations bills were enacted by the beginning of the fiscal year.

Supplemental Appropriations Restraint

Formal procedures are needed to ensure restraint in the use of supplemental appropriations. Supplementals have the potential to undermine any discipline exercised during the regular appropriations process. One of the bigger loopholes in Gramm-Rudman-Hollings is the ability to increase funding through supplementals, after the threat of sequester has passed. Under a biennial approach, restraining measures on supplementals would be especially important, because without them the system would be in danger of collapsing into ad hoc, "off-year" funding by supplementals. Clearly, we cannot eliminate supplementals altogether. There will always be a legitimate need to respond to dire emergencies and other unforseen events. However, we should have procedures requiring supplementals to meet a "dire emergency" standard. Also, there needs to be a rule that would either limit supplemental increases to amounts provided in a separate contingency allowance that would be reserved for funding emergencies outside of regular appropriations bills, or that would require that equal offsets to both budget authority and outlays be provided for in the legislation. The offset should apply automatically; that is, if a full offset is not provided for explicitly, then a uniform across-the-board reduction should be applied to discretionary accounts in the same appropriations act.

Credit Reform

We must reform the budgetary treatment of Federal credit programs. The Government's exposure in direct and guaranteed loans is approaching one trillion dollars. Credit programs generally provide assistance to worthy causes, but they involve a risk of substantial future claims against the Government. The subsidies

-- direct and indirect -- associated with credit programs are far more extensive than many realize. A credit subsidy is a method for the Government to achieve its policy objectives, just like the purchase of goods and services, transfer payments, and grants of other programs. The Administration has proposed a change in the treatment of credit programs that would result in measuring credit activity on an expenditure basis equivalent to other Federal spending. Support for the basic principle of credit reform appears to be widespread in the House and Senate Budget Committees, the Congressional Budget Office, and the General Accounting Office.

Social Security Integrity and Debt Reduction

This brings me to the question of the treatment of social security. Demographic trends will increase the ratio of retirees to workers substantially early in the next century. In expectation of this change, policies have been adopted to run a surplus in the trust funds, so that members of the large "baby boom" generation can contribute to their retirement. In order to assure that resources are available to pay these benefits when they come due, the Nation must increase its investment and economic growth. In this context it is vital that the Federal budget be brought into balance and that the Federal debt to the public be reduced.

Budget surpluses are projected to develop beginning in FY 1993. This is chiefly due to surpluses in social security. The non-social security part of the budget, taken by itself, would continue to produce deficits. Because social security trust fund balances are invested in U.S. government securities, some have argued they are "financing" part of the non-social security portion of the budget. This has led to proposals to remove social security from the calculation of the budget deficit or surplus for purposes of Gramm-Rudman-Hollings, while continuing to require gradual reductions in the non-social security deficit. This approach has merit, and we have been discussing versions of it with various members of Congress. It would lead to surpluses in the unified budget as now calculated and a reduction in the publicly held national debt.

However, we are concerned that if social security were taken out of the budget calculations altogether, there would be great temptation, given the existence of surpluses, to either increase current benefit payments or reduce social security taxes. Such changes would jeopardize the benefits of those who are working now and who will retire in the next century. On the other hand, if the unified budget is allowed to show a surplus because of the inclusion of social security, there will be great temptation to use the surplus for additional spending rather than to retire debt. The budget included a proposal, which we have called the "Social Security Integrity and Debt Reduction Act," which would have these key features:

- The social security trust funds would be treated as they are now, with their reserve balances building up.
- Starting in FY 1993 with a phase-in period, an amount equal to the projected annual social security surplus would be paid by the Treasury into a new fund and used solely to retire outstanding publicly held debt.
- The G-R-H law would be extended beyond FY 1993 and would require the budget, including the payment to the new fund, to be balanced.
- The required payment to the fund would be counted as an outlay and the budget would have to be balanced including this outlay.

Following this approach:

- The social security trust fund reserves would be protected and would continue to build up for the payment of future retirees.

- The budget would be balanced without, in effect, relying on the social security reserves, and some of the national debt would be retired.
- There would be no unified budget "surplus" available to create a temptation for additional spending.

Of course, there may be other ways to achieve these goals. We are willing to work with Congress to find a mutually acceptable reform in the budgetary treatment of social security.

Balanced Budget Amendment

We need a constitutional requirement to balance the budget. Amendments to the Constitution should be undertaken only for the most serious reasons. But there are many indications that it is time for fundamental changes in our budget process. For the first 100 years of our Nation's history, we obeyed an unwritten law that the budget should be balanced except in time of war or depression. In the last 30 years the Federal Government has had only one balanced budget. While the Gramm-Rudman-Hollings balanced budget law has brought some additional discipline to the process, it has not been enough. In every year since the law was enacted since 1985, the actual deficit has been higher than the target deficit. The law had to be amended in 1987, largely to revise the targets and to postpone the achievement of a balanced budget.

Obviously, the constraints imposed by G-R-H have been insufficient. One explanation for this is found in the economic discipline known as "public choice," which points to an inherent imbalance between the forces demanding higher spending for particular purposes and the general interest in spending restraint. Without strong constraints, this imbalance leads to ever-higher spending and chronic deficits. The most important constraint needed is a constitutional requirement to balance the budget with safeguards against achieving balance by raising taxes.

Line-item Veto Authority

The other fundamental change involving a constitutional amendment is line-item veto authority. The line-item veto is a tool the President, as representative of the general interest, would use to curb the demands for more and more special interest spending. At present, if the President believes that an item in an appropriations bill is not in the general interest, he is faced with the choice of vetoing the entire bill or proposing a rescission of the item. Vetoing an entire bill, which often means disrupting the funding for billions of dollars worth of programs, because of one or two objectionable provisions, is usually not a realistic choice. The rescission option usually doesn't work, because Congress can kill the President's proposal simply by ignoring it. The line-item veto is a tool available to most of the Nation's Governors, who have used it successfully to reduce lower priority spending without unduly increasing their power at the expense of their States' legislative bodies. And, the President's authority to veto an item in a bill, like his authority to veto an entire bill, would not be absolute. Item vetoes also would be subject to override by the Congress.

Conclusion

The constitutional reforms should be pursued, but the amendment process is appropriately demanding and takes years. In the meantime, we need to work toward the significant improvements that can be accomplished through legislation. A number of bills have been introduced by members of Congress that include provisions consistent with changes the President proposes. We look forward to working with the Congress on these important matters.

Chairman **Derrick**. Thank you very much, Mr. Diefenderfer.

You know, I have a little more substantive questions that I will ask you, but I just want to make this comment. I cannot believe that the President really thinks that a constitutional amendment is going to balance the budget. You know, I am a cosponsor of a couple of them, but I will just quite frankly tell you that they are nothing but window dressings.

I mean, you know, we have had this discussion in this committee for some time. You are going to balance the budget when the President wants to balance it. That is when it is going to get done. The constitutional amendment to me is just another budget act.

If you go back and look at the testimony, you know Gramm-Rudman-Hollings was going to balance the budget. All this is is just either the administration or the Congress looking for a way to get around making those hard decisions, in my opinion.

But anyway, I think you are probably right on the line-item veto. I think it is, it is at least worth doing, unless the Congress is able to get the appropriation process through in a reasonable time. Certainly I think it is very unfair to the President or any Chief Executive to suggest a $700 billion continuing resolution to something like that, and/or all situations.

I am not sure that the reason we want to do it, though, is because we think that the President is going to deal with the special interest. It is just a matter of whose special interest it is, whether it is the Congress or the President's.

But having said that, let me ask you this: in the budget for 1991 the President mentions a number of things that he felt needed to be done, including the joint budget resolution, which, of course, you addressed, and biennial budgeting and enhanced rescission authority and closing the loopholes in the Gramm-Rudman-Hollings Act. And, of course, a balanced budget amendment.

And I assume that probably the joint resolution would be the number one priority. Could you in some way prioritize those for us?

Mr. **Diefenderfer**. Well, I do at some risk. There are different factions within the administration who prefer different solutions, and that is the reason they were not—I think one of the reasons they were not prioritized within the budget.

I think from OMB's point of view, the thing that would give us the most immediate and effective relief, because it can be done more quickly than constitutional undertakings are legislative solutions.

For example, things like the joint budget resolution and legislative line-item veto are within Congress' power to enact within days, if they so choose, and have go into effect.

I think if I had to prioritize two or three, I would say that the joint budget resolution, the legislative line-item veto, and the second sequester in the Gramm-Rudman-Hollings discipline, and I would be hard put to distinguish among those.

We will gladly accept any one of those. We would like to have all three.

Chairman **Derrick**. You know, in the testimony that we have had before this committee so far and it is kind of, I think, a fair statement, somewhat bipartisan, not entirely, but certainly I think some of our witnesses are objective about the budget process. And we have had some testimony from some very responsible people, not necessarily Members of Congress, that Gramm-Rudman-Hollings has really done nothing but allow Congress to be more deceitful in the way they prepare budgets.

And that what we ought to do is do away with it. And the Budget Act has really not accomplished anything other than set up another committee, I guess, at great expense. And, you know, I think there is some validity to both of those arguments. I am just wondering if you think Gramm-Rudman-Hollings has been a positive thing. I believe I am correct, and I don't want to misquote him, but I think I read the other day where Senator Hollings said that he was ready for a divorce from Gramm-Rudman-Hollings.

Mr. **Diefenderfer**. I think that has already been before the judge, and he has gotten it.

Well, yes, I enjoy the opportunity to comment on those thoughts.

First of all, I would not personally want to characterize anything the Congress does as deceit, but just using that as the——

Chairman **Derrick**. Well, I said that.

Mr. **Diefenderfer**. I know. Using that as the categorization, these sorts of activities did not start with Gramm-Rudman-Hollings. There are a list that go back that we have compiled over years. A recent example that occurred before Gramm-Rudman-Hollings in 1981. We moved Medicare costs from 1980 into 1981, and then when we did the 1981 budget, we shifted it back to 1980. And I say "we," because I was on the Senate side at that time in a staff position. So I don't think Gramm-Rudman-Hollings caused any more or less in terms of the deceit area.

I take great issue with those that would say Gramm-Rudman-Hollings has not been effective. I have seen time and time again during my employ in the Senate, whether it was the Senate Finance Committee where we did the tax law of 1986 where for the first time in the history of the Senate, major tax legislation was passed without a huge number of ads, in terms of spending from the Treasury. A large part of the reason for that was the discipline of having to offer revenue neutral amendments. So Members were forced to say, well, yes, I would like to give so much in X, Y, Z in terms of dollars, but to do so I have to take it from somebody else.

These were hard choices, and they could never quite get the 51 Members to do this. I think, once again, it is subjective, but I think any critical analysis of Gramm-Rudman-Hollings would have to conclude it did not meet its full promise. But it has succeeded beyond, I think, what we would have achieved if it were not in place.

Chairman **Derrick**. If I might interject—excuse me for interrupting, but how do you justify the fact that the President's budget, it touts a $100 billion deficit when you and I both know that it is, if you included the social security business, is close to $250 billion? How could it possibly have worked?

Mr. **Diefenderfer**. Well, the question you have to ask yourselves is were it not in place, would the deficit be higher than 250 you stated. And I think the answer to that is yes.

Chairman **Derrick**. Of course, I think you also have to answer the question that if we had to make the deficit public in the true sense of the word, would it not be maybe lower than that now, if the American people were allowed to really understand what their deficit is? I mean, after all, that is where the discipline is supposed to come from.

Mr. DIEFENDERFER. Well, I think that argument can be made. I doubt that it would have a very great affect, sir. The average person—and every year I spend in Washington, I guess I distance myself from that type of person—but generally judges the state of the economy and the strength of the Government on their own personal experience. What has happened is we have had people from Wall Street, from the Congress, and others crying wolf. Oh, we are going to be in a recession, a depression, within 6 months, within 12 months, since 1982, 1983. It has not happened. They don't believe us. They don't believe the economists.

Now, I happen to think the budget deficit, whether you want to state it as the law requires us to estimate it or as you have estimated it, taking the trust funds out; a serious matter estimated either way. It is up to us, public officials, to go out and convince them that there is an urgent problem and that it has to be addressed and sacrifice all around is necessary.

But it won't be coming from the personal experience unless we have some sort of calamity, which many have predicted and has not come forth.

Chairman DERRICK. We keep pumping more and more of that money into the Congress, in my opinion.

What do you think about the credit reforms in Mr. Panetta's bill?

Mr. DIEFENDERFER. Mr. Panetta's bill came out yesterday, and I have not been able to do a significant analysis of the credit reform proposals in his bill. I can tell you that we——

Chairman DERRICK. What do you think about including the cost of these loan programs in the budget, because certainly there are real costs.

Mr. DIEFENDERFER. Well, we at OMB, and here I am speaking with the benefit of the Director of OMB, Mr. Darman, having recently testified before the Budget Committee subcommittee hearing chaired by Mr. Schumer. Mr. Darman asked strongly for significant reform of the credit side of the budget.

We have proposed through the director's recent testimony, that we ought to measure the credit subsidies accurately as we can, and this would include insurance, guarantees and any other form of credit subsidies. These subsidies could be aggregated by sector of the economy, say housing, farming, banking, and cap the amount of credit subsidies allowed to flow to those areas.

The director has suggested that perhaps a proper target for these restrictions would be a certain percentage of GNP that would be allowed to flow at any given time.

Chairman DERRICK. I am going to yield because Mrs. Martin is on somewhat of a tight schedule, but I would like to reserve the right to ask more questions.

Mrs. MARTIN. I am just going to ask one, and I appreciate that.

Chairman DERRICK. Sure.

Mrs. MARTIN. Later we can discuss having external controls, whether it be Gramm-Rudman, whether it be a balanced budget amendment, in almost a philosophical way if they are good or not.

You are saying you don't know whether the President wants one any way. I think you can make a pretty good argument with the bias towards spending that exists in any governmental unit across party lines that having external controls is a help.

Chairman **Derrick**. Would you yield for just one second?

Mrs. **Martin**. Of course.

Chairman **Derrick**. My argument is if you could pass a balanced budget amendment, I don't think that would be bad. It would probably be a positive thing. But I tend to think that it is not going to balance the budget. If I thought it was going to balance the budget, I would devote 24 hours a day to trying to get it passed.

Mrs. **Martin**. Well, again, I think a different time if you have a constitutional amendment requiring it—granted we are very clever around here—but it would sure come a lot closer, and it would strike me it would be a little harder to avoid.

Chairman **Derrick**. The simplest thing to do is just cut spending and if necessary raise the taxes.

Mrs. **Martin**. Or as you point out, if you are looking at the numbers that they don't think are right, you know, we have an opportunity in our budget process to use those numbers, and we choose not to do them.

Now, it is pretty hard to keep talking about the other side doing the stuff, and then later on we say, well, but we thought it was just a bad plan. We can hardly wait to adopt it.

Anyway, under current circumstances, though, for a moment forgetting that we can perhaps make it better, but in this world that we do work on, what about the argument that sequestration has lost all punch, that because of, for a lot of reasons, sequestration's big push was the way it could hurt programs, and because of the way sequestration was set up, especially defense.

Now, because of what is happening and what will continue to happen in defense for other external reasons is the entire threat of sequestration gone, and, therefore, is the question of Gramm-Rudman-Hollings almost moot.

Mr. **Diefenderfer**. It is a very good question.

When Gramm-Rudman-Hollings was attached on a bill that came out of the Finance Committee, it was added on the Senate floor by Mr. Gramm-Rudman-Hollings. I worked on it extensively at that time.

Sequestration was looked at in a sense as a mutually assured destruction treaty, that the Congress and the administration would never let sequestration come about, because if it did, the Congress' cherished domestic programs—this is an unfair simplification—but the Congress' cherished domestic programs would be hit, and if the Administration didn't participate in some agreement, their cherished defense programs would be hit.

Now, there is some feeling that the mutually assured destruction treaty has ended, because the defense department is going to have some decline over time, therefore, there is less pressure on the Administration to worry about sequester.

I would guess if we were not able to encourage the Congress and the Administration to sit down for some sort of negotiations fairly quickly to resolve the budget problems we see coming, I would estimate that we are facing a sequester now, not of $36 billion, but closer to $50 billion. My guess takes the economics that we have experienced over the last 5 or 6 months into account. That would be $25 billion on defense, and $25 billion on domestic discretionary programs that are not exempted from sequestration.

A $25 billion sequestration on defense is a serious amount of reduction in terms of what we think would be acceptable to provide an adequate defense for the United States, number one. And number two, it would be mindless reduction. It wouldn't be an orderly reduction of defense priorities to provide us the absolute best defense with fewer dollars.

So I think sequestration still has some bite to it. And that is one of the reasons you see us calling, for a while it was daily, now it is about weekly, for negotiations with the Congress, to sit down and try to work it out ahead of time, so we don't come down to the end without some agreement that the President can sign and we are forced to go into sequestration.

With that said, I might say we took about a $4 billion sequestration in this last reconciliation. And, quite frankly, I am surprised that there hasn't been a whole lot of perturbation in the system. We haven't got too many letters or cards. I don't know what your office has experienced.

I figure if we had a lot of problem with it, we would be hearing much more than we are. So some are saying, well, maybe we should try a higher level. We don't support that. We would rather have a negotiated settlement. Sequestration is second best. But it is there as a disciplining factor.

We adamantly reject the bills for budget reform that Mr. Panetta and Mr. Sasser have put forward, in respect to the provisions that repeal sequestration. We could not accept language of that type.

Mrs. **Martin**. I thank you, Mr. Chairman, for yielding.

Chairman **Derrick**. Thank you.

Mr. Wheat.

Mr. **Wheat**. I don't want to belabor the point, but oddly enough, I was a vociferous opponent of Gramm-Rudman. I agree with you that any budget mechanism that we create needs to have an enforcement mechanism to go along with it, and the sequestration aspect of Gramm-Rudman is probably the only aspect of it that works in terms of an automatic budget mechanism.

That is not to say that the effects are always beneficial. I mean, you end up with this artificial decision as to what will be cut and what will not be cut.

Mr. **Diefenderfer**. Absolutely.

Mr. **Wheat**. What you are proposing now with a second sequestration will probably make the artificial, automatic mechanisms work more effectively. But recognizing what I have pointed out, that we are going to see some cuts in defense and that such cuts might not be as balanced as it was originally seen, do you think the administration would be willing to agree to a different proportion of cuts, instead of 50:50 automatic cuts, perhaps something along the line of proportional cuts, where each, defense and domestic programs, bears its exact percentage of the budget in terms of cuts?

Mr. **Diefenderfer**. Well, we have said, and this is not meant to be an obtuse answer, and it is not an obtuse answer, that we are willing to sit down with everything on the table. And that is from A to Z. That is an item, obviously, that could be put on the table.

There are other questions that might come up in terms of that. As well, maybe we should look at some of the things that are now excluded from paying their fair share of the sequestration.

But it would be an item for possible discussion, sure.

Mr. **Wheat**. In talking about the line-item veto, while I don't see that as a particularly strong mechanism toward moving in the direction of a balanced budget, if it is, do you think the administration would be willing to provide a list of items that it would anticipate vetoing? I mean, we hear about the line-item veto year in and year out. The President proposes a budget year in and year out, and yet we never get this list or compilation of the money that would be saved if the line-item veto were available.

Mr. **Diefenderfer**. Well, if what you are asking me is would we be willing to take an appropriations bill that is coming through the process, and say, here are 15 things had we the power, we would not accept, I think so, sure.

Mr. **Wheat**. That kind of thing, yeah.

Mr. **Diefenderfer**. I think we would be willing to do that, assuming the reason for the request is, an honest request that wants to see how we would exercise our power.

Some would say, well, don't agree to do that, because the Congress has no intention of enacting line-item veto, it will go back to certain constituencies and say, aha, see he's not for you.

But in terms of a serious effort by the Congress to move line-item veto and we saw it as such, yes, sir, I think we would like to do that, because we are willing to take some political risks if we think the people we are dealing with are seriously considering moving this forward.

Mr. **Wheat**. Those are the only questions I had.

Mr. Chairman, I have to apologize, because I have a meeting starting at 10 o'clock that will last just a few moments, but I will cover that meeting and return.

Chairman **Derrick**. Okay. Thank you very much.

Would you be willing to answer some questions in writing for the subcommittee?

Mr. **Diefenderfer**. I would welcome that opportunity, sir.

[The information referred to follows:]

HEARINGS ON CONGRESSIONAL BUDGET PROCESS REFORM:

ADDITIONAL QUESTIONS FOR THE RECORD

FOR THE HON. WILLIAM DIEFENDERFER
(DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET)

1. Joint Budget Resolution.

Question: The statement in the President's budget for fiscal year 1991 in support of a joint budget resolution implies that the goal of this reform is to reduce executive-legislative conflict during action on appropriation, revenue, and reconciliation legislation. Do you agree with this assessment? Can such conflict be reduced significantly by means other than a joint budget resolution?

The budget also states that "a joint resolution will not make the later budget process completely smooth." What kinds of problems do you foresee arising from the use of a joint budget resolution?

Response: Replacing the concurrent congressional budget resolution with a joint resolution agreed to by both the President and the Congress will not necessarily reduce the scope of initial policy differences between Congress and the Administration on the budget; but, it should significantly reduce the duration and number of steps in the budget process by bringing the President into the process early on. Early agreement on the framework for budget reduction will allow reconciliation and appropriation action to begin on a more timely basis, and may make the whole process less contentious overall.

The statement that "a joint resolution will not make the later budget process completely smooth" simply refers to the fact that, as is the case with the current (concurrent) resolution process, difficulties are always encountered in ensuring that appropriations actions and authorizing legislation conform to the limits prescribed by the resolution. It is not anticipated that substituting a joint resolution process will make these existing difficulties disappear.

2. Budget Scorekeeping.

Question: Is it desirable and possible for the President and Congress to adopt jointly a comprehensive set of fixed scorekeeping rules that can be written down and widely distributed?

Response: The Administration supports the adoption of scorekeeping rules to which the President and the Congress have agreed, preferrably as part of a Joint Budget Resolution. Both in the FY 1988-89 and FY 1990 Bipartisan Budget Agreements (BBA's), rules were agreed to by the negotiators on the part of the Congress and the President. The rules for FY 1990 were slightly modified from those used to enforce the earlier agreement to reflect a changing consensus on the classification of discretionary and mandatory programs and other changes in scorekeeping conventions. The agreed upon rules were incorporated by reference to the agreement.

We propose that the Budget Committees, the Congressional Budget Office, and the Office of Management and Budget continue to work together to develop and maintain scorekeeping rules. Like the larger legislative process, the budget process has to be capable of change; therefore, the rules should not be "fixed." Rather, they should be updated with each new BBA (or Joint Budget Resolution), then treated as fixed for the period covered by the agreement.

3. Enhanced Rescission Authority.

Question: The discussion of enhanced rescission authority in the President's budget contains some statements that trouble me. First, it states that "[t]he Budget and Impoundment Control Act of 1974 severely restricted the President's powers to 'impound' funds appropriated by Congress." The Impoundment Control Act set up a mechanism for congressional review of impoundment proposals; it has been a long series of court decisions over many years that have restricted the President's powers in this area.

Second, it states that "[a]t present the entire government, with its myriad programs and agencies, is financed by only 13 appropriations bills." I understand that the annual appropriations process - with its 13 regular appropriations bills as well as supplemental and continuing appropriations measures -- accounts for about half of the new budget authority enacted each year.

Notwithstanding these factual errors, I am more concerned about a fundamental misinterpretation of the data. The rescission process is termed "essentially unworkable" even though Congress has approved about one-third ($19.6 billion of $57.8 billion) of the rescissions proposed by Presidents Ford, Carter, Reagan, and Bush. Sixty percent of the approved rescissions ($11.7 billion) were acted on in President Reagan's first year. What these figures indicate to me is that the rescission process works very effectively when a President proposes rescissions that have merit and are acceptable to a majority of Members in each House.

The specific proposal endorsed by the President, the "legislative line-item veto," effectively would allow "one-third plus one" of the Members of just one House to block appropriations for any item that the President objected to (by preventing a veto-override on a measure disapproving a rescission). Such a proposal would make a mockery of the congressional "power of the purse" granted by the Constitution. How can you claim that it offers Congress "full protection"?

Response: The Congressional Budget and Impoundment Control Act of 1974 created a process that constrains the President by requiring the President to propose rescissions to Congress and by allowing the Congress to defeat the proposals simply by ignoring them. Specifically, if the Congress takes no action within 45 days, the President must make the amounts available for obligation.

It is true that the annual appropriations process accounts for about half of the new budget authority enacted each year. The President's FY 1991 Budget recognizes this fact when calling for constitutional line-item veto authority that would apply to authorization bills as well as to appropriation acts (page 268):

> "To be fully effective line-item veto should not be limited to appropriations bills but should also apply to provisions of authorizing bills that create entitlement or other mandatory spending, and to revenue bills. At present about 47 percent of total spending is mandatory (not counting an additional 15 percent for interest, which, of course, would always have to be paid.)"

The current rescission authority is ineffective, from the President's perspective, because rescission proposals can be killed without an up-or-down vote on the part of the Congress. Most of the rescissions proposed by Presidents over the 15 years since the passage of the Congressional Budget and Impoundment Control Act of 1974 have been killed without a vote.

The "legislative line-item veto" that the President endorses would require an up-or-down vote in Congress on Presidential rescission proposals. It would give the President -- and the Congress, in many cases -- a realistic opportunity to eliminate from appropriations bills special interest items that would not have been enacted on their own merits but were passed because they were bundled with necessary items. The legislative line-item veto authority would provide an opportunity for those items to be voted on separately. Because the current requirement for sustaining a Presidential veto is "one-third plus one," we believe that maintaining the same requirement affords Congress the protection provided by the Constitution.

4. Restraining supplemental appropriations.

Question: Supplemental appropriations, it is argued in the President's budget, "should be required to meet a 'dire emergency' standard, both in their submission by the President and their approval by Congress." How should this standard be defined? Should the General Accounting Office review supplementals proposed by the President, as it now reviews proposed impoundments, reporting to Congress on how the proposed supplementals compared to the established standard?

Response: "Dire emergency" should generally be limited to supplemental appropriations for mandatory programs. All other supplemental appropriations should be fully offset by transfers from other programs or by rescissions of previously appropriated funds. As noted in the President's budget, one alternative would be to require a uniform across-the-board reduction in the discretionary accounts in the same appropriations act that is the subject of the supplemental.

The possibility of waiving this requirement for dire emergency should be a political judgement rather than a technical appraisal by the General Accounting Office. One approach in keeping with the overall objective of limiting supplementals to dire emergences would be to require a super-majority vote to approve any supplemental that was not fully offset.

5. Closing Loopholes in the Gramm-Rudman-Hollings Act.

Question: The statement in the President's budget criticizes the fact that spending increases or revenue reductions occurring after the October 15 sequester order "are not penalized in any way" and proposes the remedy of a second sequester trigger date "early in the next calendar year" in which policy changes, but not changes in economic or technical assumptions, would be taken into account. The President's budget for fiscal year 1991 (on page A-29) indicates that between October 1989 (when a sequester order for fiscal year 1990 went into effect) and January 1990, the fiscal year 1990 deficit worsened. Changes in economic and technical assumptions added $10 billion to the deficit, but policy changes reduced it by $6 billion. Do these figures suggest that the proposal is not likely to deal effectively in most years with later deficit increases?

Further, you indicated in your testimony that the economic and technical changes should be updated. Does this reflect a change in this recommendation from what was presented in the President's budget?

Some Members of Congress argue that reductions made under the sequestration process fall unduly on programs under the jurisdiction of the House and Senate Appropriations Committees, mainly because of the amount of entitlement spending exempted from sequestration. If this is so, would not the "second sequester" procedure that you advocate exacerbate this problem? For example, using updated economic and technical assumptions, the President's budget indicates that a second sequester would be triggered, largely because of the underestimated costs associated with the savings and loan bailout program - which is funded mostly outside the annual appropriations process and is exempt from sequestration reductions (but not from the deficit calculations).

Finally, you argue that the Gramm-Rudman-Hollings Act has been undermined in that a sequester does not pose the great threat that it was expected to pose (unless the deficit excess is quite high, as it may now be). Do you feel that the credibility of the threat

should be increased by: (1) eliminating the "crediting" rule, that tends to favor defense programs; (2) terminating some exemptions from sequestration, that tend to favor domestic programs; and (3) imposing a surtax in addition to making spending reductions?

Response: The proposal in the President's Budget for a second sequester called for policy changes enacted after the final October sequester report to be counted against the G-R-H deficit target. As you note, economic and technical changes occurring after the final sequester report can also have a significant impact on the size of the deficit. In order to ensure that the actual deficit at the end of a fiscal year meets the G-R-H target for the year, our proposal for a second sequester has been modified to include the impact of economic and technical changes, as well as policy changes. With a second sequester, the G-R-H deficit target would no longer be a hurdle that needed to be cleared only once during the year, but rather it would be a real target that could not be exceeded for any reason without penalty.

The exemptions for entitlement spending -- and many discretionary programs, as well -- were decided quite explicitly by Congress in enacting the original law and amendments to it. You are correct in noting that for FY 1990 technical reestimates of the savings and loan bailout program, particularly those associated with the Resolution Trust Corporation (RTC) working capital, would influence any second sequester calculations. RTC working capital, because the amounts involved are so large, has the potential of distorting the entire budget process. The deficit would balloon in years when RTC acquires assets, but it would shrink dramatically in years when the assets are sold. Under these circumstances, fiscal policy becomes hostage to timing and policy decisions yet to be made by RTC and to technical reestimates of these transactions. The Administration has expressed on numerous occasions its interest in working with Congress to develop a more rational treatment of this issue.

The credibility of a sequester threat is undermined each time a loophole in the G-R-H law is used to avoid a sequester. Adopting the second sequester plan outline above would help to close the principal loophole in G-R-H. The Administration also advocates a supermajority vote to repeal a sequester to make it more likely that a sequester would stick. To answer your specific questions, problems associated with the "crediting" rule required by section 252(f) of the G-R-H law would be avoided if Congress completed action on its appropriations bills in a timely fashion; except where there is a truly compelling argument for exemption, eliminating exemptions in order to make the sequester base as broad as possible would provide for the fairest and most effective sequester process; reductions in spending, not a surtax, is the appropriate reaction to a deficit problem.

6. Reinforcing Sequester.

Question: The statement in the President's budget proposes that a supermajority vote be required to pass legislation cancelling a sequester. In the two instances when Congress has passed legislation cancelling a sequester in whole or in part (fiscal years 1988 and 1990), the provision was included in an omnibus budget reconciliation bill. In view of the difficulty often encountered in getting reconciliation bills passed, and the prospect that they may cancel or modify a sequester, do you think it is wise to require a supermajority vote?

Response: **Whatever problems Congress may have enacting reconciliation bills, they still provide Congress with a relatively painless way to repeal sequesters. It is too easy to legislate a sequester repeal even though the other spending and revenue provisions provide insufficient savings to meet the G-R-H target. Requiring a supermajority vote to repeal a sequester would have two beneficial effects: (1) it would make it more difficult for Congress to restore savings achieved by a sequester; and (2) by making the repeal of a sequester more difficult, it would provide stronger incentives to make the necessary reductions in order to avoid a sequester in the first place.**

7. Balanced-Budget Amendment to the Constitution.

Question: In the last several years, not a single state has petitioned Congress to pass a balanced-budget amendment to the Constitution and some earlier petitions have been withdrawn. In light of this, do you feel there is public support for this proposal at this time?

Response: Yes. A Gallup poll conducted last year, following the President's FY 1990 budget proposal, found that 59 percent of the public favored a balanced budget amendment, 24 percent were against one, and 17 percent were undecided. Those in favor cut across all political persuasions. While it is true that two States rescinded resolutions calling for a constitutional convention, proposals to rescind resolutions in several other States were defeated. It remains that 30 of the necessary 34 States have called for a constitutional convention on the question of a balanced budget.

8. Line-Item Veto.

Question: With regard to the President's request for a line-item veto, I find it useful to recall President Reagan's final State of the Union Address in January of 1988. President Reagan scolded Congress for sending him, among other things, a massive continuing resolution. He urged Congress to give him, by approving line-item veto authority, "the right to reach into massive appropriations bills, pare away the waste, and enforce budget discipline."

President Reagan vowed to send Congress within a month a formal request to cancel billions of dollars in spending that he would have eliminated through the line-item veto had he had such authority.

In March of 1988, President Reagan submitted to Congress a message listing fiscal year 1988 appropriations which he claimed were wasteful and unnecessary and should be cancelled. OMB estimated at the time that the recommendations would reduce fiscal year 1988 outlays by $1.5 billion. More than half of the savings -- $801 million -- would have been derived from loan asset sales, not cutbacks in program spending. Had these savings been put into effect, the deficit (about $150 billion) would have been reduced by one hundredth and total outlays (more than $1 trillion) would have been reduced by about one thousandth. President Reagan never did formally request rescission of these funds.

How can the line-item veto be used to reduce the deficit substantially or eliminate significant wasteful spending if President Reagan himself was unable to identify more substantial amounts to be reduced?

On another issue, the statement in support of this proposal claims that the President "should have the power to strike from legislation provisions that reflect only narrow local or special interests." What criteria would the President use to determine if a provision pertains solely to a narrow local or special interest?

Response: It is no secret that, under current procedures, items that would benefit narrow local or special interests are tacked onto otherwise necessary legislation, because such items would not be enacted on their own merit. Some bills become so loaded with such items that the bills are referred to as Christmas trees.

The line-item veto authority would be another tool that the President could use to reduce the deficit by eliminating wasteful spending. Line-item veto authority alone will not balance the budget. Whether the savings in any year would be more or less than the Reagan Administration identified in 1988 is impossible to predict, but the elimination of just $1.5 billion of unnecessary spending would justify line-item veto authority.

The criteria that any President would use to determine if a provision pertains to a narrow local or special interest would be a matter of judgment and tough calls -- to which he would held accountable. Each President would have to make those judgments.

President Bush has said that he is prepared to make those calls and take the heat. The Congress could override those judgments if it disagreed with the President's judgment.

9. Pay-As-You-Go Budgeting.

Question: Budget baseline projections are an integral component of budget-making. The Panetta bill (H.R. 3929), which would institute a pay-as-you-go budgeting process, makes certain changes in the budget baseline concept and in other budgetary definitions. Do you favor or oppose any of these specific changes?

Response: We are in the process of considering the technical and substantive aspects of the bill, but we have not reached any conclusions on it. We are not prepared to comment on the bill at this time.

Chairman **Derrick**. Charles Bowsher, Comptroller General of the United States, we are delighted to have you this morning and appreciate you taking the time.

Mr. **Bowsher**. My pleasure, Mr. Chairman.

I was just down in your district last week visiting the Savannah River.

Chairman **Derrick**. That is a great operation down there. You know, they get some bad press from time to time, but I think they are making an honest effort.

Mr. **Bowsher**. They have some tough issues, but——

Chairman **Derrick**. We would be delighted to put your full statement in the record and have you summarize or any way that you would like to proceed.

Mr. **Bowsher**. I would like to do that, Mr. Chairman.

Harry Havens is with me, Assistant Attorney General.

Chairman **Derrick**. I have known Harry for many years.

STATEMENT OF CHARLES BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY HARRY HAVENS, ASSISTANT ATTORNEY GENERAL

Mr. **Bowsher**. What I would like to do is just summarize off Attachment I, if I could today a little bit, because I think if you turn to Attachment I and look at this chart, [see p. 218] you can see that we have not made a lot of progress under Gramm-Rudman.

There is no question that Congresswoman Lynn Martin's point on the fact that it has helped plateau the spending as far as the percentage of gross national product. That is true. But if you look at where we were in 1985 and 1986 when we put Gramm-Rudman in, we had a unified deficit of $12,212,000,000.

We are today running, I think in 1990 here when we add the cost of this savings and loan, we are going to see a unified budget well above the last few years after we got down to the $150 billion. But as you pointed out earlier, the real numbers are up there. When you take away the trust funds, we are running at the high $200 billion, close to $300 billion level, and we are $266 billion in 1985 when we legislated Gramm-Rudman.

We at that time had $9 billion of trust fund surpluses in social security. In 1990, we are going to have $86 billion. In 1995, we will have $128 billion. And I think it is this masking of the budget deficit that has got people contented to think that they are making progress when the truth of the matter is we have made very limited progress.

Also, I believe, like as OMB pointed out there, that there are certain incidents, no question, where some of the rules of Gramm-Rudman have helped keep it down, but I also quote Senator Rudman. He said that this was a system that maybe wasn't the best in the world, but it would certainly force the top people into the conference room to make the big decisions to bring the budget down. It hasn't.

In other words, if you look at the big areas of the budget, why we have had no big program decisions made, and what we have done is generally get into the conference room, figured out what gimmicks we need to meet the targets. And I think although there were some, I have been watching this budget process for over 20 years. Although there was some gimmicks used prior to Gramm-Rudman, I think anybody that says that hasn't escalated the gimmicks, when you move payrolls from one fiscal year to another, you are doing things every bit as bad as I often say New York City did in the mid-1970's. And I think it really tears at the integrity of government. I think using these gimmicks like that.

So I think it is a really serious problem. I think another thing, too, that in these numbers, these are CBO numbers that I use. When you look at fiscal year 1991, you see practically a $100 billion difference between the, even the unified deficit of $161 billion and the $64 billion target.

So that when you come to speak about sequester here, I see now, according to the testimony we just had here, that they are up from their 30 something billion up to $50 billion. I suspect that is going higher. And so if you are going to do sequester, you are going to ruin a lot of parts of government.

I served at the defense department in the late 1960's, and we did expenditure cuts in each of 3 years. And I think it was one of the things that led us to not having this balance of defense forces as what we probably could have had in the 1970's. And I think that any time you go to expenditure cuts, expenditure targets on a 1-year basis where everybody hopes you won't have it the next year, why you get bad decisionmaking. I think you get very bad decisionmaking, and I think you could undo what good we did get out of the buildup in the defense area in the early 1980's if we go to——

Some people are saying that sequester wouldn't hurt defense as much as it would the domestic programs. I think when you look at these size of numbers, why the damage that could be done would be tremendous. And so I think that should be given a lot of thought.

I think also we do have additional costs. In other words, the S&L I think is the classic case of where we had to add additional cost to the projects of last year here recently, and you have got cost overruns that have not been built into all these numbers, and we have been testifying recently here on the $6 trillion of exposure, not that you have $6 trillion of cost, but you have some exposure here in the credit area of the insurance funds, the direct loans, loan guarantees and that, and so you are looking at a situation here where we have got ourselves with really serious deficit problems.

And I think we have got to get back to old fashioned decisionmaking and make some tough decisions, including the revenue side. In other words, I think I would like to do it all on the spending side if we could, but I think it is going to be very hard to do it.

So when I look at the features of H.R. 3129, I see that moving away from Gramm-Rudman to a more pay-as-you-go formula. It has the advantage, I think, of getting rid of some of the features of Gramm-Rudman.

I do worry about moving to still one more formula type budgeting. I do like the emphasis on the 5-year or the long-term rather than the annual emphasis. I like the emphasis on the real deficit and excluding the social security surplus, because I think the social security side really is masking what we are looking at.

I think the credit features are good. We have one dispute there. We would sooner see the credit subsidy be above the line rather than below the line, but on balance, we agree with that.

So that is pretty much a summary of the bill in our own overall view. We have advocated in a booklet that we pout out here recently a six-part breakout, keeping it unified, but showing the—it showed on Attachment II here, [see p. 219] it shows the general government operations, the trust funds and the enterprise, enterprise being like TVA, Post Office and that. And then we would say we should put the focus on getting that general government operations target down, which in 1988 was $271 billion. That is where the focus has to be.

And then another feature of it, if you want capital budgeting, which we think there is some major advantage to, why you could build that into the system. So that is some of our recommendations.

[Mr. Bowsher's prepared statement follows:]

United States General Accounting Office

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Testimony

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Testimony on H.R. 3929 and Other Budgetary Matters

Statement of
Charles A. Bowsher
Comptroller General
of the United States

Before the
Subcommittee on the Legislative Process
Committee on Rules
House of Representatives

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to present our views on H.R. 3929, entitled the "Budget Process Reform Act of 1990," and on other matters concerning the budget.

The budgetary problems facing the Congress and the American people are so different and so much more complex than they were a few years ago that a reexamination of established concepts and procedures is required. Current practices are not successfully resolving these problems.

The problem centers on the huge deficits in the federal funds portion of the budget that developed in the 1980s as a by-product of conflicting policies that were not resolved in the budget process. Taxes were cut and government spending was increased and those actions were not reconciled. The situation continues today. Instead of dealing with the real issues through the political process, we resorted to formula budgeting--the Gramm-Rudman-Hollings (GRH) process--and discovered that doesn't work very well, either.

If current trends continue, the public debt will reach $4 trillion by the mid-1990s, consuming $250 billion to $300 billion per year of the nation's scarce supply of savings that should be flowing into productive capital investment. This represents an enormous threat to the nation's future economic growth and international competitiveness.

In the narrower context of managing the federal budget, this growth of debt means that interest costs consume a growing share of available general revenues. By the mid-1990s, interest could well become the largest single item in the federal funds portion of the budget. Meanwhile, a growing list of needs goes unmet and problems go unresolved. The deficit constrains our ability to respond to domestic problems, such as cleaning up toxic waste and repairing deteriorating roads and bridges. And it limits our ability to advance our national interests abroad, such as in responding to developments in Eastern Europe.

Budget Director Darman acknowledged some of these issues in his introductory essay in the 1991 budget, when he talked about the "hidden PACMEN" waiting to consume billions for the government's liabilities and unmet needs. But the budget itself makes only a very small down payment on these problems. For example, of the hundreds of billions needed to resolve the bankruptcy of the savings and loan insurance fund, less than $20 billion has been reflected in the budget.

REFORMS NEEDED IN CURRENT BUDGETING PRACTICES

It is clear that the country faces critical fiscal issues requiring far-reaching decisions by the federal government. To make those decisions wisely, policy makers need reliable and complete information presented in an understandable format that focuses on the key issues. And they need a process that encourages conscientious negotiation in the search for agreement that serves the national interest. Unfortunately, current practices do not satisfy these needs.

Structural Problems

There are major structural problems in the current unified budget with its exclusive focus on a single, cash surplus or deficit total. By merging growing trust fund surpluses (of which Social Security is the largest) with general operating amounts, it gives the illusion that progress has been made in reducing the deficit. The discouraging reality is that the deficit in general operations is larger today ($276 billion) than when we began the GRH process ($266 billion). (See attachment I)

Also, the budget's failure to highlight the investment and enterprise activities of the government, coupled with the inherent limitations of a cash-based budget, creates a bias against needed capital investment and an incentive to move enterprise operations such as the $40 billion per year Postal Service off budget.

Our concern about these problems has led us to propose[1] a restructuring of the budget into general, trust, and enterprise sections, with each divided into operating and capital parts. (See attachment II)

Understatement of Costs

Furthermore, the budget's almost exclusive focus on cash transactions means that many costs are greatly understated, a few are overstated, and others are totally ignored. For example, the exposure to possible losses on federal credit and insurance programs now stands at almost $6 trillion. The current presentation of the budget does not give proper visibility to this exposure and its budgetary consequences, nor does it encourage appropriate action to control the exposure. While the government will probably experience losses on only a small portion of this total exposure, the risk of very substantial losses is real, as we saw when the government's savings and loan deposit insurance commitments suddenly turned into a major fiscal problem with the bankruptcy of the Federal Savings and Loan Insurance Corporation (FSLIC).

When GAO recently testified on its audit of FSLIC's final financial statements, we reported that at least $325 billion would be needed to pay off FSLIC's obligations, much of which will have to come from the U.S. Treasury. And the $325 billion could easily go to $400 billion, or even to half a trillion if the economy turns against us. There is still no reliable information on how these costs will affect the budget. To date, less than $20 billion has been included in the budget estimates.

Closely related to this problem, but on a smaller scale, is the practice of treating new loan guarantees as cost-free because they involve no cash outlays in the first year. But this is deceptive. During fiscal years 1983 to 1989, guaranteed loan terminations for default increased sharply, from about $5 billion to about $11 billion.

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[1] Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1/October 1989).

GAO believes the government should provide timely, on-budget funding for deposit and other insurance programs when it determines that insurance fees and premiums are insufficient to cover expected losses. We should also fund other major costs as the liabilities are incurred, such as the costs of the federal retirement systems.

The budget also needs a better focus on major unmet needs. It is encouraging that Budget Director Darman took a step in this direction with his "hidden PACMEN" discussion in the 1991 budget. We hope that this kind of presentation will become a permanent feature of the budget and that it will be strengthened and systematized. For Congress and the public to understand the implications of these issues, it needs at least rough estimates of costs, an indication of the timeframe in which action will be needed, and suggestions of how the costs will be reflected in future budgets.

A Formula Budget Process that Does Not Work Well

The third problem area in budgeting is the GRH process itself. In our November 1989 report on GRH procedures,[2] we noted that the act's focus on annual cash deficit targets encourages short-term "fixes" with too little consideration given to real, long-term solutions. For example, slipping pay days from the end of one fiscal year to the beginning of another is a savings illusion. Similarly, asset sales produce an immediate cash infusion and help reduce the short-term deficit, but sometimes at the price of increasing by an even bigger amount the long-term deficit. Moving $30 billion in borrowings for the savings and loan rescue effort to an off-budget Resolution Funding Corporation adds about $3 billion to Treasury interest costs over the long-run.

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[2] Deficit Reductions for Fiscal Year 1990: Compliance with the Balanced Budget and Emergency Deficit Control Act of 1985 (GAO/AFMD-90-40, November 15, 1989).

We also noted that the GRH process does not address the growing deficit in the nontrust fund side of the budget where the long-term problem lies, and the fact that the act's unusual budget accounting requirements contribute to unrealistic deficit projections.

I should also mention that GRH's mechanistic approach basically treats all nonexempt programs alike in the sequestration formula, regardless of their relative needs or effectiveness. More importantly, I sense that formula budgeting somehow weakens the legislative process and long-term public confidence in the government. Surely, government accountability is lessened and public confusion increased when 4 years of technical compliance with GRH provisions has not resulted in deficit reduction in the general operations of the government.

This is why we think that a different approach to budgeting is needed, one that builds upon the successful experience of the 1987 budget summit agreement, which produced a 2-year, bipartisan agreement on macro budget categories. If such an approach could be regularized, progress could be achieved in streamlining the process, extending the time horizon, and minimizing uneconomical decisions. It is through a bipartisan discussion of the budget deficit and its causes, a discussion that takes into account commitments and unmet needs, that the deficit problem will be properly addressed.

THE FEATURES OF H.R. 3929

Now let me turn to H.R. 3929. As you know, the bill would repeal the GRH law and substitute a new deficit reduction approach termed "pay-as-you-go." Instead of having statutory deficit targets (as in GRH), OMB and the Congressional Budget Office (CBO) would be required to calculate new deficit targets each year using the bill's pay-as-you-go formula. Essentially, the targets would be the difference between (1) baseline revenues and (2) baseline outlays minus inflation.[3] These targets would be further reduced by $10 billion in the first three budget cycles under the law.

Under the provisions of H.R. 3929, the off-budget Social Security surpluses would, unlike under the GRH law, not be included in the computation of the deficit.

The bill's approach is similar to the "outlay freeze" approach which attempts to hold outlay growth below inflationary rates. This allows revenues to "catch up" over time and reduce the deficit. However, H.R. 3929 does not require an inflexible outlay freeze because it contains a provision allowing outlay increases to be offset by revenue increases from new legislation.

H.R. 3929 contains no sequestration procedure (as in GRH) to enforce the required cutbacks. Instead, it would rely upon the legislative process to enforce adherence to the deficit targets. To improve congressional budgetary discipline, H.R. 3929 contains provisions designed to make it more difficult for bill sponsors to pass legislation increasing spending or decreasing revenues from the levels approved in the budget resolutions.

Positive Features of H.R. 3929

We see certain strong points in H.R. 3929, principally the following:

-- The repeal of GRH would reduce somewhat the formula aspects of current budgeting practices. More accountability for budgetary results would be placed back in the hands of Congress and the President.

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[3] Baseline amounts basically are projections assuming continuation of present law and adjustments for inflation and entitlements caseload.

-- By excluding Social Security from the pay-as-you-go formula, the bill comes closer to dealing with the federal funds deficit.

-- A required 5-year reconciliation feature would extend the time horizon of budgeting, reducing the incentives to adopt measures that produce short-term cash benefits but higher long-term costs.

-- New points-of-order would make it more difficult for bill sponsors to avoid the fiscal restraints of the budget resolutions, such as a point-of-order against certain bills to exclude a new or existing federal entity from the budget.

-- Restrictions on slipping pay days and using special asset sales to report budget savings for a fiscal year would eliminate or minimize these budgetary gimmicks.

-- H.R. 3929's definitions of certain budgeting terms (such as "budget authority") would clarify some existing budget scorekeeping uncertainties and improve budgetary discipline.

-- The bill would provide for somewhat improved budgeting over federal credit and deposit insurance programs.

-- A requirement that outlays be calculated on a gross basis would provide better disclosure over the magnitude of federal spending.

-- The bill's restrictive definition of government-sponsored enterprises (GSE) is designed to prevent misuse of the GSE concept for moving federal activities off-budget.

GAO Concerns About H.R. 3929

Despite these strengths, the bill has, in our opinion, certain weaknesses which can be summarized as follows:

-- The bill still has a formula feature in the pay-as-you-go approach. This feature would, like GRH, be subject to a new generation of budget accounting gimmicks. This would particularly affect calculations of the baselines that (under H.R. 3929) become the starting point for determining the deficit targets.

-- H.R. 3929 does not set forth an easily understood deficit reduction plan. Whereas the GRH law has a set of stated deficit reduction targets, H.R. 3929 has a formula for computing and recomputing the deficit reduction target each year. This could confuse many people and lessen support for deficit reduction.

-- The pay-as-you-go approach could be manipulated to allow permanent spending increases that are matched by temporary revenue increases. This could give the illusion of deficit reduction progress.

-- The bill's credit budgeting provisions would exclude the nonsubsidy portions of direct loan outlays from the budget's totals. This would lessen the budget's comprehensiveness as a statement of governmental transactions.

We see H.R. 3929 as not going far enough to resolve our concerns about formula budgeting. Like the GRH procedures, the pay-as-you-go procedures would obscure accountability for budgetary results and encourage a new round of budgetary gimmicks. It also does not deal with many of the concerns I have raised in my testimony.

I therefore would suggest that the Subcommittee consider a more comprehensive bill which might include many of H.R. 3929's provisions designed to enhance budget discipline (points of order, definitions, etc.). These provisions in the context of a multiyear bipartisan budget summit agreement could produce better implementation of budget resolution targets than was the case before adoption of the GRH law.

I also urge consideration of GAO's budget restructuring proposal or similar proposals aimed at overcoming the limitations of the current unified budget. Further, the treatment of costs, commitments, and unmet needs should be addressed. I am convinced that sustained progress in overcoming the deficit requires that such matters also be covered in budget reform legislation.

This concludes my remarks, Mr. Chairman. I appreciate having had this opportunity to present our views, and I would be glad to answer any questions you or members of the Subcommittee may have.

ATTACHMENT I

ATTACHMENT I

Masking the Federal Deficits With Trust Funds

Dollars in billions

	Actual			Estimate			
	FY 1985	FY 1986	FY 1989	FY 1990	FY 1991	FY 1993	FY 1995
Revenues	$ 734	$ 769	$ 991	$1,067	$1,137	$1,277	$1,438
Outlays	946	990	1,143	1,226	1,298	1,409	1,548
Total Deficit	$ -212	$ -221	$ -152	$ -159	$ -161	$ -132	$ -110
Federal Funds Deficit	-266	-283	-276	-290	-298	-289	-298
Trust Fund Surpluses:							
Social Security	9	17	52	66	74	98	128
Other Trust Funds	45	45	71	65	64	60	60
Subtotal, Trust Fund Surpluses	54	62	123	131	138	158	188
Total Deficit	$ -212	$ -221	$ -152	$ -159	$ -161	$ -132	$ -110
Total Federal Debt	$1,817	$2,120	$2,866	$3,156	$3,454	$4,012	$4,603

Note: Totals may not add due to rounding.

Source: Actual numbers are from OMB materials. Estimates are from CBO projections.

Fiscal Year 1988 Budget Results Restructured According to GAO Proposal

Dollars in billions

	Total	General	Trust	Enterprise
Operating surplus/deficit (-)	$-131	$-248	$124	$ -7
Capital financing requirements	-24	-23	2	-3
Unified budget financing requirements	$-155	$-271	$126	$-10

Chairman **Derrick**. How would you build the capital budgeting into the process?

Mr. **Bowsher**. Well, you would look at each of those three major categories and determine what categories are really capital investments rather than operating.

Without having capital, I think one of the things we have done over the years is we have kept our government labor intensive, and we have had a tendency to do whatever is the least cost to next year's budget, which is generally either to rent, if you are thinking of a building, rather than to build a building.

Rather than investing in machines, let's say, in automation in some of our areas, why you kind of continue to not make the investment, because you have to charge it all off in the one year of your budget submission.

So we think the capital financing would give you a little better control, and a little better decisionmaking.

Now, to do that, though, I think it is important that you have good financial reporting and good auditing. Because one of the things you can do in capital budgeting, which is what New York City did, unfortunately, is you can game that system, too. And so you have got to have some good economy, which I think the whole budgeting process needs here.

I think we have got to get away from these gimmicks. I think we have got to get to where we are using the real numbers and we are auditing those real numbers to make sure that we are not playing a lot of games, no matter what system we have.

Chairman **Derrick**. The long-time chairman of the Ways and Means Committee in South Carolina is deceased now, but I remember I used to go to him and he would say, "When are you guys going to balance that Federal budget?" And I used to tell him, "Well, if you would allow us the same accounting procedure that you have, we could balance it tomorrow morning."

I am not sure I was exactly right, but I was trying to make a point. And I guess this is what you are suggesting, you know, they have an operational budget which they balance. But, of course, if they build a building, they sell bonds for 50 years or something like that.

Mr. **Bowsher**. That is right, yeah.

Chairman **Derrick**. Whereas we under the unified budget pay for that building and it goes into the deficit or something like that.

Mr. **Bowsher**. And the whole cost of the building goes in that first year. It has to go in there.

Chairman **Derrick**. What don't you like about the bill?

Mr. **Bowsher**. I guess my major concern about the bill is the continuation of formula type budgeting. In other words, it seems to me, and I think your point is right on the constitutional amount line-item veto, what we have here is a $200 billion deficit, and you are not going to solve it unless you really make some tough decisions.

And so I don't think you are going to find any formula, or any mechanistic budget process that is going to get us out of this budget deficit that we have got ourselves into. And so I think that——

Chairman DERRICK. Well, there certainly wasn't any that would keep us from getting in it to begin with. So I think it is a reasonable assumption that it isn't the one that is going to get us out.

Mr. BOWSHER. That is right.

Chairman DERRICK. You know, one of the complaints we have heard about the bill, and I guess I am getting ready to be a little inconsistent here, is that there is no leverage. We are talking about the absence of any leverage other than a vote for more taxes or something like that.

But Gramm-Rudman-Hollings was supposed to have leverage in it. The Budget Act was supposed to have leverage in it to make us do those things which we were not naturally inclined to do, and——

Mr. BOWSHER. I am not a big fan of this leverage theory.

Chairman DERRICK. I am not either. I want to tell you I was the only Member of the South Carolina delegation that voted against Gramm-Rudman-Hollings.

Mr. BOWSHER. If you think of the debt limitation, that was another thing that was supposed to have great leverage. If you think of the Civilleti decision, for many years you kept the Government going at the end of the fiscal year, even if you didn't have quite all the appropriations done. And that was on a legal decision that my predecessor had issued. And then all of a sudden, I think it was President Carter and his Attorney General, Mr. Civilleti, decided we would close the Government.

By God, that would make everybody pass all the appropriations on time and everything like that. If you remember when we changed the fiscal year, I was serving as Assistant Secretary of the Navy at the time and John Chaffey had just come in as the Secretary of the Navy. He was a former governor and he says, why are we changing the fiscal year of the Federal Government?

And I can also remember Frank saying, well, we will never again have to have a continuing resolution, because this will give us the additional time, and Chaffey says, you know, it is awful because we have just got all the States and everybody else on a June 30 fiscal year, and it makes a lot of sense to have everybody on the same fiscal year.

And so, you know, we made that major change and one more time we thought because we had, you know, put a mechanistic change in there, that this was to solve the budgeting problems. It doesn't.

Chairman DERRICK. Well I have seen it from the other end too for the last 16 years. I can't tell you how many meetings I have been in over there where we were going to outfox the administration with this or that, and every time we mentioned sequestration, the administration just trembled, you know.

And we found out that there was nothing to it, at least the last time. Maybe as we get into the future the figures will get better. The administration outbluffed us on that.

But what would you say to the proposition that we do away with the Budget Committee, we do away with Gramm-Rudman-Hollings and go back to the way it used to be?

Mr. BOWSHER. I would—we have been, and for some time now advocating more of a leadership committee type arrangement, rather than the budget committees, and with some guidance to the committee structure——

Chairman **Derrick**. To a large degree that is what you already have.

Mr. **Bowsher**. To a large degree, and I think that is what you had 2 years ago when you had that agreement worked out with the White House in 1987, I think it was, in the fall.

I would certainly keep CBO, because I think they do a good job as far as score keeping and some of the studies they do. And I think the Congress needs an independent unit. But I wonder whether it wouldn't work better with some kind of a leadership structure rather than the budget committees that we set up in 1974.

Chairman **Derrick**. Well I think quite a few Members here look fondly back to that summit in, I guess it was 1987, and Jim Wright was able to get the appropriations bills out when he was the Speaker for the first time in a long time. And I think that he—I don't want to take anything away from him—but I think that he was definitely aided tremendously by that agreement that had been made in 1987.

Mr. **Bowsher**. Exactly.

Chairman **Derrick**. I guess what we are trying to do is to get around the fact that we at least for the last few years, have had permanently one party in the White House and one party controlling the Congress.

We need to bring that together in a more workable situation. Let me see if I have other questions here I would like to ask.

Would you comment on just the credit reform provisions?

Mr. **Bowsher**. Yes.

We think your proposals are good. We testified along with OMB and CBO the other day before Mr. Schumer, and I think the three groups are—and as Chairman Schumer pointed out, I think technically now we have pretty much come into agreement on how to do it. We have got a couple minor differences, but I think the important thing is that the credit area is not a freebie. In other words, today you can move a program off budget again by working it into the credit arrangements, like loan guarantees and things like that. And, therefore, it doesn't count against you in next year's budget and things like that.

I think it is much better to get an estimate on what the losses might be, what your risk is going to be in some of these programs and to account for so you don't get that kind of incentive in there.

I think we would have probably a better look at the credit programs than what we do now if they cost something in the budget process.

Chairman **Derrick**. Well, one thing concerns me. You said you followed the budget process for 20 years. I have the dubious distinction of having served on the Budget Committee longer than any other Democrat, with the possible exception of Jim Wright. Of course, he was there in his leadership position. But, I don't see how we can really get a handle on it without putting that credit part in.

Mr. **Bowsher**. And the credit numbers are big now. In other words, if you look back 20 years, you know, some of those programs, they were mostly housing programs, and there you also had something over there that was fairly tangible.

We moved a lot of programs into that credit area, where if you look over there and the program is not working, pretty soon the American taxpayer is picking up some pretty big chunks of money.

Chairman **Derrick**. Well, you know, back home when I have people ask me about the deficit I can put most of them to sleep in about 2 or 3 minutes if I start talking about the deficit because, as I think you or the prior witness pointed out, we have heard so much about it and the dog just hasn't bitten.

We have heard that the dog was going to bite. But what are we to do? We have gone down to Panama. It is probably going to cost us $3 billion by the time we get out of that place down there. We have got this S&L thing, which will cost $200 billion minimum, $300 billion maximum. We have the cleanup of our military nuclear facilities, which is another $200 billion over the next 20 years.

Mr. **Bowsher**. We have another thing, too, that most people don't realize, and it is going to cost us money to get out of some of these overseas commitments. In other words, everybody is looking for the peace dividend. It is not going to come for a year or two, and the American people are going to be shocked on how much money they have to spend to leave some of these countries where they have been defending them for 4 years.

And a good example is we have just done a study on this air base in Spain, and you know, we have to make good the environment. We have to have severance pay for the Spanish workers. It is costing us millions and millions of dollars. So that is the next 2 years, 2 or 3 years.

Chairman **Derrick**. I never have put a great deal of hope in the peace dividend.

Okay. Thank you very much for your testimony, and thank you for coming.

Mr. **Bowsher**. Thank you very much, Mr. Chairman. Good to see you. We will be happy to answer any questions you have in writing.

Chairman **Derrick**. Thank you.

Thank you very much for coming before us. Mr. Reischauer, as everyone knows, I am sure, but for the purpose of the record, is the director of the Congressional Budget Office. We would be delighted to hear your testimony and be glad to have you summarize and put your statement in the record if you like or whatever.

STATEMENT OF ROBERT REISCHAUER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. **Reischauer**. Thank you, Mr. Chairman. I was relieved that the Comptroller General advocated the continued existence of CBO, and I will go on the record as advocating the continued existence of GAO. As you suggested, I will submit my prepared statement for the record and confine my remarks to a brief discussion of the efficacy of the Balanced Budget Act process and the need for further procedural reform along the lines that Chairman Panetta has suggested.

The defects of the Balanced Budget Act—Gramm-Rudman-Hollings—are well known to one and all. These defects have invited the use of overly optimistic assumptions for economic and technical estimating. These assumptions have become a substitute for real deficit reduction measures. The act has encouraged budgetary myopia. By that, I mean the excessive focus on measures that affect spending of revenues in a single budget year to the detriment of what happens to the deficit in the long term.

The act has spawned accounting changes and other gimmicks that give the illusion of deficit reduction without the substance. Finally, the act has fostered cynicism about the honesty of the budget process. This cynicism has undermined the public's image, not only of politicians but also of our political institutions.

Chairman DERRICK. I think it would be fair to say you don't approve of the present process.

Mr. REISCHAUER. I am setting you up here. While these criticisms represent real costs, the bottom line is whether Gramm-Rudman-Hollings has produced benefits in the form of a reduced deficit.

On the surface, the answer to this question would seem to be yes. If we look at the deficit in 1986, it was $221 billion and has fallen to around $150 billion to $155 billion over the last 3 years.

Of course, the extent to which this decline is attributable to the Balanced Budget Act is debatable. Those who believe that the act has been ineffectual—and there are growing numbers of them in the Congress and in the Nation—point to the fact that most of the improvements in the deficit come about from the growth of the social security surpluses and from the restraints imposed on the defense budget. Both policies were set in motion before Gramm-Rudman-Hollings was enacted in 1985.

Those on the other side—and I count myself as one—would argue that the Balanced Budget Act has provided a mechanism to convert public and congressional sentiment to reduce defense spending into actual concrete reductions in defense budget authority. In addition the reforms that reduced medicare spending over the last few years have been driven largely by the Gramm-Rudman-Hollings requirements, which clearly restrained new spending initiatives. Overall nondefense discretionary spending has grown no faster than GNP since the enactment of the Balanced Budget Act, despite public and congressional sentiment to increase this spending considerably.

But, for the purpose of these hearings, the issue is not past performance but future. The important question is whether the key attributes of the Gramm-Rudman-Hollings system are likely to reduce deficits during the 1990's. One key attribute of the current system is the setting into law of rigid multiyear targets for the deficit. The effectiveness of these fixed targets may diminish over time. We now know that the use of overly optimistic economic and technical assumptions and the demands of unforeseen events, like the drought and the savings-and-loan debacle, can render deficit targets that were previously set in law totally unattainable.

When this situation arose in 1987, the targets were changed. The targets could be redefined again this year because the magnitude of the adjustment required to meet the 1991 deficit target of $64 billion will, quite frankly be tremendous. The need is sizable, especially if one counts the working capital expenditures of the Resolution

Trust Corporation (RTC) required under our current accounting practices.

CBO's estimates of the amount of reduction that would be needed to reach that $64 billion target is about $97 billion. Bill Diefenderfer suggested that the Office of Management and Budget's number is somewhere in the neighborhood of $50 billion due to changed economic circumstances. He did not mention what would happen with the RTC working capital issue. If CBO's estimate for RTC working capital were added to his $50 billion the OMB estimate would be a reduction of $73 billion. In other words OMB's estimate is not particularly different from CBO's. Both are several times larger than any deficit reduction that the Congress and the President have been able to conjure up over the last 5 or 6 years. These cuts are two, three, four times as large as any that we have accomplished in the past.

If the supposedly fixed and immutable targets are changed every 2 or 3 years, participants in the budget process will begin to accept this as one more way of escaping the required discipline. We might get into a cycle where we have 1 or 2 years of smoke and mirrors and a change of the targets, then 1 or 2 years of smoke and mirrors and a change of the targets again.

A second attribute of the current budget process is the sequestration procedure, which was intended as a threat to impel action by the administration and the Congress to reduce the deficit. A threat of sequestration may be less daunting and less balanced today than it was in the era when the administration was proposing large increases in the defense budget. This suggests that Gramm-Rudman-Hollings might be less effective in the future than it has been in the past. As I suggest, there is some controversy over how effective it has been in the past.

If this is the case, some changes along the lines that have been proposed by Chairman Panetta may be warranted. Chairman Panetta's bill would set annual amounts of deficit reductions rather than a specified deficit level.

In several respects, I think this represents an improvement over the rigidity of the current system. First, a miscalculation in one year would not destroy the realism of the deficit targets for future years, as it does now.

Second, this approach would greatly reduce the incentive behind the overly optimistic economic and technical assumptions on which both the President's budget and the budget resolution are based. This would be a definite step in the right direction. The Panetta Bill would also extend the focus of deficit reduction beyond the budget year. This would cure the budgetary myopia that affects the current system. A longer-term view would eliminate the most egregious budgetary gimmick, namely, shifting outlays and revenues from one year to another to achieve favorable deficit reductions in the budget year. This would be a second step in an improved direction.

The Panetta bill would also eliminate sequestration, substituting in its place strengthened control through points of order. This approach could be workable. In the current climate of cynicism, however, internal congressional procedures may not be viewed by the executive branch, by financial markets, or by others as an effective substitute for sequestration. I, for one, think it is extremely important that any substitute for sequestration under Gramm-Rudman be regarded at least as credible as what we have today.

The Panetta bill employs a pay-as-you-go concept for setting annual deficit reduction targets. While this approach has some appeal, some unintended consequences could arise that should be considered carefully. For example, the importance of baseline definitions to the pay-as-you-go concept could lead to a new budgetary game, namely, defining the baseline to give the appearance of deficit reduction without the substance.

In addition, pay-as-you-go might require larger and more complex budget bills, which might result in bigger confrontations between the Congress and the President over budgetary policy. The Panetta bill also incorporates credit reform and revises a number of accounting rules and definitions. These changes would help make the budget process more rational and could restore some integrity to the budget process.

In the end, however, the efficacy of any budgetary reform will depend primarily on its ability to raise the level of cooperation and compromise between the White House and the Congress. I wish I could offer some magic formula for attaining this goal, but obviously there is none.

What I can say is that I am extremely skeptical that a revision of the budget process is the silver bullet that can bring about the changes that are needed. Adopting real and long lasting deficit reduction policies will do more to restore integrity to the budget process than any measures being considered by this subcommittee. Some changes in the budget process could make a modest contribution to reducing the deficit and restoring credibility to the system. The large budget deficits and budgetary chicanery that we have experienced in the last few years, however are not primarily the result of defects in the budget process.

Rather, the process does not function well because profound political differences exist over how to reduce the deficit. Until there is a meeting of the minds on these policy differences, the budget deficit will remain undesirably high and the criticisms of the budget process will continue.

Thank you.

Chairman DERRICK. Thank you very much for your testimony.

[Mr. Reischauer's prepared statement follows:]

Statement of
Robert D. Reischauer
Director
Congressional Budget Office

before the
Subcommittee on the Legislative Process
Committee on House Rules
U.S. House of Representatives

April 19, 1990

Mr. Chairman, I am pleased to appear before the Committee this morning to discuss the efficacy of the Balanced Budget Act process and the need for further procedural reforms as proposed by Chairman Panetta in his bill H.R. 3929.

My testimony today will make four major points:

- It is important to continue efforts to reduce the federal deficit in order to increase national saving and investment;
- Setting longer-term targets for budget surpluses should wait until a balanced budget is closer to realization;
- The Balanced Budget Act has a number of problems, and some procedural changes would be useful; but
- Achieving real and long-lasting deficit reductions in the next few years will do the most to restore the integrity of the budget process.

THE NEED FOR DEFICIT REDUCTION

The primary reason for continuing efforts to reduce the federal deficit is that national saving today is much too low by both historical and international standards. This low saving rate translates into slow growth in living standards by restricting the pool of capital available for productive private investment. While a net inflow of foreign capital can substitute for domestic saving and maintain productivity, it also means that an increasing share of our output must go to pay interest and dividends to foreign creditors, which will depress the growth of our living standards.

The low rates of American saving and investment are particularly disturbing because of the demographic changes that are under way. In the United States today, there are 3.3 members of the labor force for every Social Security retiree. This relationship will remain roughly constant for the next 20 years but then will decline sharply between 2010 and 2030 to about two workers for each retiree. The best way to help the nation adjust to this demographic change is to encourage economic growth now so that the nation will be better able to support an aging population.

The most direct way for the government to encourage economic growth in the long run is to take actions that add to national saving, and the most effective way to do that is to reduce the deficit. Reducing the federal deficit will increase national saving during the 20 or so years that remain before the baby-boom generation begins to retire. This increased saving will permit greater investment at home and abroad, promote higher economic growth, and raise the amount of income that will be available for sharing by future workers and retirees. These improvements should make the inevitable allocation of more resources to retirees less of a strain on the working population of that time.

The President proposes to spur saving and investment by excluding up to 30 percent of capital gains from taxation, establishing Family Savings Accounts, and allowing penalty-free early withdrawals from Individual Retirement Accounts for first-time homebuyers. These proposed incentives would increase the return to saving, but they cannot be counted on to raise the national saving rate significantly. Once again, the surest way to increase national saving is to reduce the federal deficit.

Reducing the federal deficit could have several additional benefits. It could, for example, reduce interest rates and thus improve prospects for many interest-sensitive sectors in the United States as well as benefit debt-burdened countries abroad. It could reduce the trade deficit, and with it the inflows of foreign capital to the United States. Finally, it could also ease the burden of the Federal Reserve system in managing the economy and reduce the likelihood of sharp swings in financial markets.

The Panetta bill (H.R. 3929) addresses this need for further deficit reduction. It would strengthen current budgetary procedures for achieving deficit reduction. It would also extend the time horizon for deficit reduction efforts and try to achieve budget surpluses in the near future.

SETTING DEFICIT TARGETS

Recent discussions of budgetary policy, however, have become mired in confusion over what the real federal deficit is. For the most part, this confusion has arisen over accounting for the surpluses of the Social Security trust funds. Many proposals, including the Panetta bill, would take Social Security out of the budget calculations, and the President's budget also contains a proposal to change the accounting procedures for the Social Security surpluses. For some time, however, CBO has argued that the proper deficit to target is one that measures the extent to which the federal government draws on private saving to finance government consumption.

The chief importance of the federal deficit as a measure is that it accounts for the government's use of private saving. When the deficit increases (other than for additional spending on physical or human investments), the government is diverting more private saving to public consumption. When the deficit is cut, the government is using less saving. The annual balance in the Social Security programs affects national saving in exactly the same way as the balance in any other government accounts and, therefore, should be included in any deficit calculations.

This is not to say that the appropriate deficit target is necessarily a balanced total budget, including Social Security. Some analysts believe that limited deficits are acceptable because much federal spending yields long-term benefits. To others, a balanced budget is good enough. For example, Alice Rivlin and Henry Aaron have suggested recently that surpluses of about 1 percent of gross national product (GNP) would be desirable in the late 1990s. Still others, including the President and Chairman Panetta, propose that we go further and aim for overall budget surpluses after 1993 that are equal to those now scheduled for Social Security, which will average 2 percent of GNP in the late 1990s.

With the current targets proving hard enough to reach, pinpointing ambitious targets for the late 1990s seems premature. The deficit currently hovers near 3 percent of GNP. To arrive at a surplus of 1 percent to 2 percent of GNP, involves passing through zero, or budget balance, first. Even if recent progress can be accelerated, achieving a balanced budget is still some years off. Setting realistic targets aiming to balance the budget over the next few years, and then attaining them, has to be the number one priority for deficit reduction, to my way of thinking.

Once the balanced budget bird is in the hand rather than flitting around in the bush, so to speak, Congressional attention should then focus on longer-term budgetary goals. The case for surpluses in the total budget rests implicitly on two assumptions. One is that private investment should be the major focus of efforts to spur economic growth. The second is that private saving will continue to prove insufficient to fund such investment; thus, the government should supplement it with public saving or surpluses.

Support for this case is, however, far from universal. First, a public investment strategy for spurring economic growth could be pursued. I am referring here to a set of policies that would stress expanding investment in human capital, infrastructure, and research and development. Pursuing such a strategy might imply long-run federal deficit targets quite different from the big surpluses the Panetta bill would call for. Second, the baby-boom generation is entering its years of high saving. So far, little evidence indicates that the overall saving rate is picking up. But it is too early to tell and, with each passing year, the evidence should become clearer.

My task today is certainly not to recommend a public investment approach for spurring growth. My point is, though, that this approach deserves a serious hearing. A fair hearing will be possible only when the current huge deficit is much lower. All of this implies that it is premature to lock the government into a course of ever-growing surpluses before a specific approach to growth has been decided. I see absolutely no loss to setting and achieving near-term targets on balancing the budget, but you should reserve the choice of how much more the government should do to spur growth and how it should go about it.

HOW WELL HAS THE BALANCED BUDGET ACT WORKED?

By now, the defects of the Balanced Budget Act (Gramm-Rudman-Hollings) are well known, but let me briefly run through the litany of complaints about the act. To begin, it has encouraged the use of overly optimistic economic and technical estimating assumptions to avoid the need for making greater efforts to reduce the deficit. It has also focused the budget process on a single year and sometimes lost sight of the long-term objective, which is a slow but steady reduction in the federal deficit. Moreover, it has spawned accounting changes and other gimmicks that give the illusion of deficit reduction without the substance. Finally, it has fostered cynicism about the honesty of the budget process and undermined the public image of politicians and political institutions.

These criticisms are valid and important, but they beg the question of whether Gramm-Rudman-Hollings has worked to reduce the deficit. The budget deficit in 1986 was $221 billion, even with a sequestration of $11.7 billion. Since then, however, the deficit has been reduced to between $150 billion and $155 billion, and as a percentage of GNP the decline has been sharper--from 5.3 percent in 1986 to 2.9 percent in 1989.

But has the Balanced Budget Act produced these outcomes? Several factors can be cited to the contrary. One is that, as is widely discussed, growing Social Security surpluses account for a substantial share of the progress being made. These surpluses were set into law in 1983, before Gramm-Rudman-Hollings. Similarly, the change in public and Congressional sentiment toward restraint in the defense budget--another major contributor to improving budget outcomes--antedates the Balanced Budget Act.

On the other side, however, some people have cited the Balanced Budget Act's usefulness in converting a mere sentiment toward defense restraint to concrete action. Moreover, nondefense discretionary programs have grown no faster than GNP since enactment of the Balanced Budget Act, despite Congressional sentiment to increase them. On balance, I believe that the major effect of Gramm-Rudman-Hollings has been to restrain new spending initiatives.

There is no profit, however, in exhuming the past accomplishments or lack thereof of Gramm-Rudman-Hollings. The important question is whether the key attributes of the act are likely to reduce the deficit in the future. These attributes are the setting into law of rigid numerical deficit targets and establishing the sequestration procedure as a threat to impel action. Even if dollar targets are set five years into the future, one could virtually guarantee that they will need emendation and that they will encourage use of overly optimistic assumptions. It is equally agreed that a threat of sequestration, which would set the defense share at 50 percent, is far less daunting today in an era when the Administration is proposing sizable defense reductions than it was when the executive branch was strongly advocating substantial real growth in the defense budget. Accordingly, some changes in Gramm-Rudman-Hollings seem warranted if it is to work as well--however well that may be--in the future as in the past.

Chairman Panetta's bill sets annual targets for deficit cuts in a way that is less rigid than Gramm-Rudman-Hollings--a miscalculation in one year will not foredoom the realism of the targets ever after as Gramm-Rudman-Hollings does--and it kills sequestration altogether, substituting strengthened control through points of order in its stead. This approach strikes me as potentially workable, although internal Congressional procedures may not be as credible as sequestration. I think the efficacy of the proposed reform will depend much more on raising the level of cooperation and compromise between the Congress and the White House. I wish I could give you some magic formula for attaining that goal, but obviously none exists. What I can say is that I am extremely skeptical that any new legislation on the budget process is the key to the changes that are needed.

SOME POSSIBLE PROCEDURAL CHANGES

Unfortunately, fiscal year 1990 will prove to be disappointing in terms of achieving significant deficit reduction. The deficit target for 1990 is $100 billion, but CBO's current estimate of where the deficit actually will come out is $159 billion. Roughly a third of this difference can be attributed to the failure to carry out fully the 1989 budget agreement and to the enactment of legislation that was not included in the agreement. I refer here principally to the repeal of the catastrophic health insurance program, the enactment of the savings and loan rescue legislation, and to the provision of funds for drought relief and disaster assistance.

The remaining portion of the higher 1990 deficit results from various economic and technical reestimates, almost half of which were projected by CBO, but not accepted by the Congress, when the agreement was reached in April last year. Later reestimates have focused largely on the costs of resolving the savings and loan problem, most notably the provision of working capital to the Resolution Trust Corporation (RTC) by loans from the Treasury's Federal Financing Bank.

Fiscal year 1991 will also prove to be disappointing. The Congressional Budget Office (CBO) estimates that the 1991 budget deficit under the President's policy proposals--which purport to meet the deficit target of $64 billion--would be $131 billion, almost $70 billion higher than the Administration's estimate. This difference in estimates arises largely because the President's budget makes no allowance for the sizable needs of the RTC for working capital and because it uses more optimistic economic assumptions.

The budgetary landscape for the next several years is clouded by the costs of the savings and loan crisis, which can wreak havoc with an orderly plan for achieving the Balanced Budget Act deficit targets. For some time, CBO has argued that RTC spending should be included in the budget totals but largely excluded from the Gramm-Rudman-Hollings calculations. The rationale for excluding it is that such spending does not affect national saving or consumption in the way most federal spending does and that it would also be consistent with the treatment of asset sales under the act. The Panetta (H.R. 3929) bill does not specifically exclude the Resolution Trust Corporation from future deficit calculations, although the transactions of the RTC could be excluded effectively under its credit reform provisions.

The focus on reaching deficit reduction targets in the Panetta bill, rather than specific deficit levels, could be an improvement over the current Gramm-Rudman-Hollings procedures. It should lessen the incentive to adopt optimistic economic assumptions for the President's budget or Congressional budget resolutions. The more optimistic assumptions used for the President's budget, for example, produce a projected deficit that is $26 billion lower than that projected by CBO.

A particularly damaging defect of the Balanced Budget Act is its budgetary myopia--its exclusive focus on next year's deficit with little heed to long-run consequences. Although looking too far into the future poses its own problems, total preoccupation with the here-and-now has two major flaws. First, it diverts attention from the real reason for fiscal responsibility--namely, to raise America's saving rate over the long run--and makes deficit reduction an end in itself. Good public policy can never be made when symbols subvert substance in this way. Second, myopia has encouraged budgetary chicanery, such as shifted pay days, accelerated tax collection, and other accounting gimmicks.

The Panetta bill would extend the focus of deficit reduction beyond the budget year. It would eliminate the most egregious of budgetary gimmicks, that of shifting outlays or revenues from one year to another to achieve favorable deficit results in the budget year. The Panetta bill also revises and clarifies a number of other accounting rules and definitions that should help make the budget process more rational and comprehensible to the participants. These proposed changes are appealing and should help to restore the integrity of the budget process.

Another appealing feature of the Panetta bill is its proposal to change the budgetary treatment of credit programs to reflect more accurately their real cost to the government, which would eliminate another source of budgetary chicanery. CBO has recently submitted a report to the Congress on the need for credit reform, which both the General Accounting Office and the Administration also support. While we would have some concern about some of the specific credit reform provisions in the Panetta bill--for example, treating deposit insurance as a credit program rather than excluding noninterest spending by the RTC--on the whole it would be a definite improvement over current budgetary practice.

The Panetta bill employs a pay-as-you-go concept for setting annual deficit reduction targets. While the pay-as-you-go feature has some appeal, the experience of the last few years makes it clear that every attempt at reforming the budget process has unintended consequences. The importance of baseline definitions to the pay-as-you-go concept, for example, could lead to some new budgetary games over calculating the baselines to give the appearance but not the substance of deficit reduction or deficit neutrality. Enforcing the pay-as-you-go concept could also lead to adopting even larger and more complex budget bills, which might result in bigger confrontations between the Congress and the President over budgetary policy. At the same time, however, these confrontations might also promote more negotiation and settlement of issues, and in that sense the pay-as-you-go concept could produce some useful results in the long run.

CONCLUSION

In the end, adopting real and long-lasting deficit reductions policies in the next few years will do more to restore integrity to the budget process than the proposals in the Panetta bill. Some changes in the budget process might make a contribution to reducing the deficit or to restoring credibility to the process. But large budget deficits and budgetary chicanery are not primarily the result of defects in the budget process. Rather, the process does not function well because profound political differences exist over how to reduce the deficit. Until there is a meeting of the minds on these policy issues, the budget deficit will remain undesirably high and complaints will persist about the inequities and perfidies of the budget process.

Chairman Derrick. The first question I was going to ask you is what you thought we could accomplish with these reform procedures. You answered that in your statement. Very little. Is that a correct summary?

Mr. Reischauer. What we would?

Chairman Derrick. What we could accomplish with budget reforms.

Mr. Reischauer. It would accomplish cleaning things up in the budget process. But the fundamental problem will persist as long as disagreement exist between the executive branch and the Congress and within the Congress over, first, the necessity to reduce the deficit and, second, how to go about doing it.

Chairman Derrick. You think we ought to do away with the budget process, do away with Gramm-Rudman-Hollings?

Mr. Reischauer. No, I don't. I think this would send a bad signal to financial markets. The budget process as now exists represents a mechanism that can facilitate this process once the decision is made in the White House and in the Congress to resolve this issue. Some kind of mechanism is needed and this is a pretty good one; but the process can't substitute for political will.

Chairman Derrick. As we look at these reforms, what are the other goals that you think we should keep in mind, other than deficit reduction?

Mr. Reischauer. An important thing to keep in mind is that budgeting is a cooperative exercise between the Executive and the Congress. The budget has a sequential element—in the sense that the President proposes a budget, Congress goes off and works its will. In the current situation, however where the work that has to be done is painful and imposes substantial political costs, the reform process should try and get cooperation and involvement from both branches.

Chairman Derrick. You think that this obsession that we have with the deficit is going to get in the way of some of these other reforms that might be desirable, such as the one you just mentioned? Do you think this is like a big bale on top of the whole situation?

Mr. Reischauer. Clearly, this focus on the deficit has distorted and affected the way we have gone about trying to solve national and international problems. For that reason alone, I think that we shouldn't focus exclusively on the deficit.

Chairman Derrick. Could you elucidate just a little more on what you think we might do as far as the Executive and Congress in getting together as being an objective of budget reform. Is there anything we can do in reform legislation to bring that about?

Mr. Reischauer. Well, one possibility——

Chairman Derrick. For instance, there has been one suggestion made here this morning, that maybe what we need is some sort of leadership committee and do away with the rest of it.

Mr. Reischauer. I think that it is often difficult to implement a budget resolution under our current system because those responsible don't have as large a role in the formulation of that resolution as they feel they should. This is more an internal question for the Congress.

Chairman Derrick. Such as?

Mr. **Reischauer**. Well, I am skating out on thin ice here. The issue that I was really talking about is insuring that there is more involvement of the executive branch in the development of the budget. What happens now is that the President fulfills his obligations early by putting on the table a large volume with numbers that meet the Gramm-Rudman law under his set of assumptions.

The Congress is left to wrestle with this bear over the ensuing 6 or so months. Delay, failure to move forward, or failure to meet the Gramm-Rudman targets leads to criticisms of the Congress, which is not altogether fair.

Because, as I said, this is a process that must involve the executive branch. Therefore, some of the onus for failure should fall on the executive branch. What we should be interested in is more involvement. One suggestion that was made this morning was to convert the concurrent resolution into a joint budget resolution that the President would have to sign. I think that this would draw the President into the process after he submitted his budget and reduce his ability to stand aside and criticize the action or inaction of the Congress.

Chairman **Derrick**. But don't you think when we passed the Budget Act to begin with, and later with Gramm-Rudman-Hollings, don't you think that what we did was kind of kick the administration out of the process to a large degree?

Mr. **Reischauer**. You tried to increase the role for the Congress and provide an internal order or discipline to the budgetary actions of the Congress. This is why I would be very distressed about the abolition of the budget committees or the budget process as we now know it. Currently, the process gathers together the information and the legislation and the planning so that people can look at the overall budgetary activity instead of piece by piece, as was the case before 1975.

Chairman **Derrick**. Well, that may have been what we tried to do, but don't you think what we did was kick the administration out of the budget process and assume that burden ourselves? And we have decided, that really isn't a burden that we would like to have anymore?

Mr. **Reischauer**. Well, I think you are right, and I think how much of this you want depends on how difficult is the problem facing you. If the problem is huge structural deficits, as it has been since the early 1980's, with a legal requirement to cut spending or raise taxes to meet deficit targets, then it is a responsibility that nobody really seeks.

If we got back to a more healthy fiscal situation—that is, a balanced budget—the process that we had before would be quite acceptable.

Chairman **Derrick**. Do you think we will have a balanced budget in your life time or my life time, assuming we live to our normal life expectancies?

Mr. **Reischauer**. Yes.

Chairman **Derrick**. You can forget that question. That is optimism over reality. What about the timetable? Do you think we need to do anything on the timetable?

Mr. **Reischauer**. No. I think that the timetable is quite compressed as it is. Tinkering around with it would really be a second or third order response to the basic problems. I don't see the timetable as being an important component of the solution to the problem that we face right now.

Chairman **Derrick**. I gather from your testimony that you think we should try to incorporate the summit agreements or some sort of deal to try to work out between the parties—and you think it might be advisable to put it in the legislation; is that right? I don't want to put words in your mouth.

Mr. **Reischauer**. We are doing a paper on the pros and cons of making the concurrent resolution a joint resolution, which I will provide to this subcommittee. [See page 243.] The paper will basically examine the joint resolution as a mechanism for involving the President and the executive branch, which, of course, depends on the willingness of the executive branch. We could end up with a situation much like the existing one but in which the President wants to play ball with the Congress.

As you pointed out in your previous questioning of one of the witnesses, this is partially a problem that arises because the Congress is under the control of one party and the White House is under the control of the other party. If that didn't exist, one would expect more cooperation and earlier cooperation.

Chairman **Derrick**. One of the criticisms of the budget act and Gramm-Rudman-Hollings is that it is too complicated; it is a little more than our policy makers can handle. Can you think of any ways that we might simplify the process?

Mr. **Reischauer**. Basically, no. All the things that one could propose to make the process fairer, to close the loopholes and escape hatches that exist now, in fact make the process more complex.

Budgeting for a $1.2 trillion government in a setting that involves two separate branches of government is a very complex problem. I don't think we should fool ourselves that we can make this simple. It is a little like the tax system. We tried to reform the tax system and make it simpler and fairer in appropriate ways. We succeeded in some of those dimensions in 1986, but we certainly didn't succeed on the simplicity issue.

Chairman **Derrick**. Well I don't know how many tax simplification acts have passed since I have been here, but somehow they all end up being 1,300 or 1,400 pages, and they lose the right to be called that. One of the things that the Congress has been plagued with and also the administration is omnibus budget bills and also the continuing resolutions and what not. Do you see anything that we can do which would help us try to avoid these continuing resolutions in the budget act?

Mr. **Reischauer**. They are basically a symptom of the underlying problem, which is the inability to agree on how to reduce the deficit. Because deficit reduction involves political pain, it is avoided until the very end, which gets us into continuing resolutions.

Chairman **Derrick**. All right. The Panetta bill does away with sequestration. Do you agree with that? Do you think this is something whose time has passed?

Mr. **Reischauer**. I would be very cautious about eliminating sequestration, as I suggested before, without substituting an equally credible devise for ensuring deficit reduction. The question in my mind is whether points of order or strengthened procedures in the

House and the Senate are an adequate substitute. They could be. They could be made to work. There is no question about that. But I think that most of the people off of Capitol Hill would be very skeptical, given the last few years. They would suspect that what is really happening is that a clear but crude system, which people understand as a threat, is being substituted by something that is very confusing.

There aren't 1,000 people in the Nation that really understand the rules and procedures of the House and the Senate, and they would be very unsure. The other thing is that sequestration is a part of the budget law that drags in the executive branch. They——

Chairman **Derrick**. That is a good point.

Mr. **Reischauer**. They hold the trigger. When they determine that sequestration need only be $5 billion rather than $50 billion, they get the criticism in the press for low balling the estimate. When they don't pull the trigger, they get the criticism for being chicken. So, if you eliminate sequestration, you are removing the executive branch from another stage of this process.

Chairman **Derrick**. I don't think there is any question about it. If you believe that the main thrust of Gramm-Rudman-Hollings is its discipline, it would seem to me that the Panetta bill does away with it. I don't, quite frankly, see much leverage that the Panetta bill leaves in there.

I think it probably relies on the good offices of the Congress, primarily. I don't know what you think about that. Anyway, how about the baselines? This has been a tremendously contentious point for as long as I have had anything to do with the Budget Committee. The Panetta bill simplifies it, at least. What do you think about the Panetta bill's treatment of the baselines?

Mr. **Reischauer**. The Panetta bill's definition of the baseline uses it as a component in determining how much deficit reduction will be required in the upcoming year. CBO has been the promulgator of base lines now for 15 years. What CBO is trying to set out in its baseline is what the expenditures and revenues of the government would be if current policies remain unchanged.

The baseline is an extremely useful device because it allows you to compare your actions within a policy environment of no change in a world where the economy is fluctuating up and down, where the numbers of recipients for veterans' benefits or social security benefits is changing up and down, and price levels are alternating up and down.

I would strongly argue that we should continue presenting a baseline, such as CBO has presented over the last 15 years. I have no objection with the redefined baseline that Chairman Panetta uses for that particular purpose, which asks what a pay-as-you-go budget would look like, how much deficit reduction would we have to enact this year? But these are two very different purposes.

Chairman **Derrick**. Do you think that the CBO economic and technical assumptions are the ones that should be used by the administration, the Senate and the Congress in their assumptions?

Mr. **Reischauer**. Clearly, you can't bind the administration to use congressionally developed——

Chairman **Derrick**. I think it is generally understood that your assumptions are the correct ones, or they come closer to being correct than anyone else's.

Mr. **Reischauer**. Well, we have no ax to grind: so I think CBO on the whole has a more unbiased set of assumptions. These assumptions can be wrong. As you know, this is an art, not a science, both on the technical and on the economic side. I think a lot more is made of using optimistic economic and technical assumptions than we really should.

They can be used to help out in one year but not in subsequent years. They say the economy is going to perform better than it turns out performing. For example, this year, the administration has a more optimistic set of economic assumptions, which causes the deficit to be $26 billion below where CBO would say it would be.

Unless the administration is willing to make an equally large additional jump in optimism in the next year, which quickly becomes unreasonable, all it has is that original $26 billion leeway. So, if you stick with the targets, you have to pay for your past optimism eventually.

But, as I suggested in my earlier remarks, the Congress hasn't stuck with its targets either, and there will be some question on whether it will do so this year.

Chairman **Derrick**. Would you mind commenting on multiyear budgeting? I don't think we have gotten into that.

Mr. **Reischauer**. If you are talking about the Panetta bill's requirement that reconciliation instructions apply for 5 years and that the amount of saving has to be 120 percent of the first-year saving and over the 5-year period, I think that is a clear step in the right direction, and——

Chairman **Derrick**. Is it attainable? Is it possible to do it that way?

Mr. **Reischauer**. I think it is.

Chairman **Derrick**. Of course, the Panetta bill makes reconciliation a required process rather than the optional process. There is a deficit objective that requires the committees to provide much more detailed information on the recommendations. Please give me your comments on that. Do you think that reconciliation has worked? I was chairman of the reconciliation subcommittee on budget for a number of years.

Mr. **Reischauer**. Well, I think here we get back to an issue that was discussed earlier——

Chairman **Derrick**. You know, the Rules Committee is really the enforcer of the reconciliation instructions——

Mr. **Reischauer**. Right. What the Panetta bill and many of these other bills would do is increase the responsibility and power of the Rules Committee and the Budget Committee. I am not really in a position to say whether your colleagues and the other committees will respond in a positive fashion to that increase in responsibility and power. That is a judgment for you to make.

Chairman **Derrick**. Well, let me ask you one other quick question and then I will let you go. Do you think the Panetta bill is going to encourage or do away with these gimmicks that we have been using, or do you think we are just going to have to spend a little more time or maybe a little less time thinking up new gimmicks?

Mr. **Reischauer**. Being a staff member of the Congress, I don't want to belittle the intelligence and ingenuity of my colleagues. I am sure that no matter how tightly we draw up a budget reform bill, new gimmicks will be found.

But I think the Panetta bill would go a long way toward closing the largest of the loopholes.

Chairman **Derrick**. The Panetta bill would?

Mr. **Reischauer**. Yes, it would.

Chairman **Derrick**. And which loophole is that?

Mr. **Reischauer**. No. 1, the Panetta bill would certainly eliminate the use—or reduce any incentive to use—optimistic economic and technical assumptions. No. 2, it would eliminate the advantage gained by shifting spending or revenues from one year to another. No. 3, it would make it much more difficult to remove items from the budget in the way that we have done in the S&L bailout, the post office, and FICO. No. 4, it would reform credit assistance programs. So right there are four major changes. Additionally, it would make it more difficult to have what is called "directed scorekeeping," which is one of these gimmicks that is so complicated few people understand what is involved.

Chairman **Derrick**. Thank you very much for your excellent testimony, and thank you for being so patient with us on the questions. You did a good job. I wish you luck. As I said earlier, I have served on the Budget Committee longer than any other Democrat, with the possible exception of Jim Wright. I was even there when Alice Rivlin was there back in the dark ages.

Mr. **Reischauer**. I was Alice's deputy back then, and I remember you doing your time.

[The document referred to by Mr. Reischauer follows:]

CBO STAFF MEMORANDUM

SHOULD THE BUDGET RESOLUTION BE A LAW?

May 1990

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

This Congressional Budget Office Staff Memorandum describes and analyzes a proposed budget process reform: passing the budget resolution in the form of a law. It was prepared by Roy T. Meyers of the Budget Analysis Division under the supervision of Marvin Phaup. Sandy Davis of the Congressional Research Service provided valuable comments on a draft. Questions regarding the memorandum should be addressed to Roy T. Meyers at 226-2837.

INTRODUCTION

The budget resolution is a "concurrent resolution," which is a resolution passed by both Houses of Congress. A concurrent resolution is not a law, because it does not meet the constitutional requirement that laws must be presented to the President for approval. A concurrent resolution is instead a vehicle used by the House and the Senate to make or amend rules or to express positions. "Bills" and "joint resolutions" are used to enact laws. Though there are distinctions between bills and joint resolutions, they are not relevant here; proposals to convert the budget resolution into a law have suggested that the joint resolution label be used.

During the extensive consideration of the Congressional Budget Act, there was next to no discussion of the possibility of having the President approve or veto the proposed budget of the Congress.

> A second determination of JSC [the Joint Study Committee on Budget Control] was to create a process independent of the President and dependent solely on Congressional action. The linchpin of the new process was to be a concurrent resolution, a legislative measure which is not submitted to the President for his review. After years of battling the President on budget priorities and economic policies, Congress would have its own procedures, unconstrained by presidential preferences.1/

The next major budget process reform effort--that of the Beilenson Task Force for the House Rules Committee--considered changes in the budget resolution, but did not pay much attention

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1/ Allen Schick, Congress and Money (Washington, D.C.: Urban Institute, 1980), p. 60. See also Allen Schick, "The Congressional Budget Act of 1974 (P.L. 93-344): Legislative History and Analysis," Congressional Research Service (February 26, 1975), pp. 101-108.

to whether the President should have a role in formulating the resolution. The Rules Committee reported a bill that converted the preliminary and final budget resolution procedure of the Congressional Budget Act into a single binding resolution procedure, which was already being carried out in practice.2/ This reform was included in the Balanced Budget Act of 1985.

Experience with the Balanced Budget Act led to more interest in making the budget resolution a law.3/ The sequestration penalty made it more important for the Congress and the President to enact bills that could be interpreted as meeting budget targets. One way of making this more likely was the negotiation of an agreement between the Congressional leadership and the President over certain budgetary allocations and procedures--a procedure that has become known as a "budget summit." Budget summits produced a two-year agreement for fiscal years 1988 and 1989, and a one-year agreement for fiscal year 1990.

Evaluations of these agreements have been mixed. The agreement for fiscal years 1988 and 1989 did not develop until late in 1987, but subsequently contributed to the passage of all regular

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2/ See Report of the Committee on Rules, House of Representatives, "Congressional Budget Act Amendments of 1984," House Report 98-1152, Part 1 (October 1984), pp. 23-31.

3/ See the brief discussions in House Committee on Government Operations, "Reform of the Federal Budget Process: An Analysis of Major Proposals" (June 1987), pp. 75-77; Allen Schick, "Proposed Budget Reforms: A Critical Analysis" Senate Committee on Governmental Affairs (April 1988), pp. 28-32; and Rudolph G. Penner and Alan J. Abramson, Broken Purse Strings: Congressional Budgeting, 1974-88 (Washington, D.C.: Urban Institute, 1988), pp. 113-115.

appropriations on time for fiscal 1989, the first time that had occurred since fiscal 1977. In contrast, the agreement for 1990 was roundly criticized for relying on questionable assumptions and accounting practices to meet budgetary goals. It was also difficult to enforce because of differences between the branches on the meaning of the agreement, particularly with regards to the President's proposal to cut capital gains tax rates. Nevertheless, there is support for formalizing budget summits by requiring a joint budget resolution. The President proposed this change in his fiscal year 1991 budget:

> A joint resolution, which needs approval of the President, would guarantee Presidential involvement in budget negotiations early in the process. The ensuing legislation--appropriations bills, revenue measures and reforms of mandatory programs in reconciliation bills--would reflect those negotiations and thus there should normally be less conflict between the executive and legislative branches over these bills in the later stages of each Congress.
>
> There will always be problems of interpretation of budget resolutions and a joint resolution will not make the later budget process completely smooth. But it would at least assure a negotiation each year and should settle the basic boundaries for later legislative action.4/

At least six bills that would establish joint budget resolutions have been introduced in the 101st Congress.5/

This memorandum describes the potential effects of enacting

4/ Budget of the United States Government, Fiscal Year 1991, p. 265.

5/ Four omnibus bills include joint resolution provisions: S. 391 (Domenici, R-NM), H.R. 1957 (Schuette, R-MI), H.R. 2936 (Upton, R-MI), and H.R. 3464 (Patterson, D-SC). Two bills require joint resolutions: H.R. 191 (Ireland, R-FL), and H.R. 3068 (Lightfoot, R-IA).

the budget resolution as a law. It addresses whether a joint resolution could produce an earlier agreement between the Congress and the President and analyzes its effect on the distribution of power between them. The memorandum also discusses the argument that the Congress should forgo preparing a budget resolution and projects the effect of a joint resolution on enforcement.

ANALYSIS

Budget resolutions have typically been passed by partisan majorities of less than two-thirds of each house's membership, and split partisan control of the Congress and Presidency has been the rule rather than the exception since the end of World War II. If these conditions continue, requiring the President's signature on a budget resolution could force the Congress to modify its preferred budget resolution to obtain the President's signature.

Requiring such accommodation is far from the intent of the Congressional Budget Act, in which "Congress would have its own procedures, unconstrained by presidential preferences," to repeat Schick's description. But this desire for independence, if taken to its logical extreme, was clearly inconsistent with the constitutional design of "separate institutions sharing powers."6/ The President's veto power makes the President a roughly equal participant in the legislative process, absent cohesive, two-thirds

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6/ See Louis Fisher, The Politics of Shared Power: Congress and the Executive, 2nd. ed. (Washington, D.C.: Congressional Quarterly Press, 1987).

majorities in both the House and Senate that would override vetoes. The veto power ensures that the budgetary process at some point turns into a bargaining session between the Congress and the President.[7/] Given this reality, two critical issues are when and in what form the Congress should negotiate with the President. Two basic alternatives are: at the early stage of setting aggregate budgetary targets--the joint resolution alternative--or later, when individual budget bills are considered--as expected in current law.

The Possibility of Early Agreement

The objects of disagreement between the President and the Congress in budgetary legislation are of three types: the aggregate levels of spending and revenues; specific program spending levels and tax provisions; and the legislative language included in budgetary bills. One argument in favor of the joint budget resolution alternative is that it could lead to an early agreement over budgetary aggregates and perhaps over amounts for major categories of spending and revenues. This could reduce the potential range of disagreement over specific program spending levels and tax provisions when individual budgetary bills are considered, presuming that a joint resolution's targets are enforced.

Nothing guarantees that a joint resolution procedure would lead to an early agreement, however. Either the President or the

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[7/] See Robert J. Spitzer, The Presidential Veto: Touchstone of the American Presidency (Albany: State University of New York Press, 1988).

Congress could calculate that not having a joint budget resolution is preferable to having one, causing the negotiations over a joint budget resolution to be long and unproductive. The majority in the Congress might prefer to use the budget resolution to dramatize its policy differences with a President from the opposite party, with the goal of affecting the next election. Or the President might propose a "dead-on-arrival" budget--one that had no possibility of being adopted by the Congress, and was not even viewed as a reasonable first offer for a negotiation between the branches. The President could then refuse to make any concessions to the Congress, knowing that in the past the public has tended to blame the Congress more than the President for the failure to pass budgetary legislation, and hoping that the public would continue to apportion blame in this manner. This would place the Congress in a difficult situation. To do nothing could leave it exposed to the charge that it was shirking its responsibility to respond to the President. On the other hand, if the Congress proposed a joint budget resolution that would meet the constraints of the Balanced Budget Act and could be the basis of a bargain between the President and the Congress, this would require the Congress to take much more political heat than the President. In particular, the Congress would probably have to propose higher tax increases than the President, which it has been extremely reluctant to do in recent concurrent budget resolutions.

Another possible cause of delay in adopting a joint resolution would be the difficulty an incoming President could have in simultaneously developing a negotiating position and organizing the administration, particularly when there has been a partisan shift in control of the Presidency. Similarly, it often takes a great deal of time for the Congress to select its leadership, make committee assignments, and debate and formulate party and committee positions.

Yet these possible causes of delay--political intransigence and organizational difficulties--apply to concurrent budget resolutions as well. The hope of proponents of the joint budget resolution approach is that by making an early agreement between the Congress and the President a goal, the branches would often decide to negotiate soon after the President's budget was proposed. Even when this scenario did not occur--when the President proposed an unrealistic budget and the Congress reacted with a joint resolution that was vetoed--the hope is that negotiations would begin soon after a veto. This is because the public would understand that it is the joint responsibility of the branches to develop a budget resolution, and both branches, rather than just the Congress, would be blamed for the failure to adopt one.

In addition, the branches could learn that advance scheduling of joint budget resolution negotiations is in their own self-interest. Congressional leadership and the President have negotiated budget levels in recent years--1980, 1982, 1984, 1987 (covering two budget years), and 1989--but agreeing to negotiate often took a good deal of time because the Congress and the

President distrusted each other's intentions.8/ Each branch has taken the position that it would be willing to negotiate only if the other branch would prove that it would enter such negotiations with good intentions, and the required proof has usually been a publicly stated willingness to consider backing away from some preferred policy position, such as opposition to new taxes or benefit reductions. Because such statements might be viewed as abandoning a position without a commensurate reward, and thus as an indicator of weakness, each branch has been reluctant to make such statements. While this awkward ritual may help build a minimum level of trust for the eventual negotiations, it also takes a great deal of time for the little amount of progress that is made. It might be more useful simply to agree beforehand to negotiate over budget levels at the beginning at each budget cycle, and to transfer the energy currently used determining whether and when to negotiate to the resolution of policy disputes.

Congressional and Presidential Power

Joint budget resolutions have been viewed in the past by some Congressional proponents as an unnecessary cession of power to the President. The basis of this belief is partially the fear that allowing the President to veto the budget resolution would prevent the Congress from expressing its own policy preferences. But the

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8/ For a detailed history, see Joseph White and Aaron Wildavsky, The Deficit and the Public Interest (Berkeley, California: University of California Press, 1990).

joint budget resolution procedure would not prevent the Congress from enacting a "veto-bait" budget resolution, any more than it would prevent the President from proposing a "dead-on-arrival" budget. The Congress could pass a budget resolution that was not acceptable to the President, the President would veto it, and then the branches could then decide if and when to negotiate a compromise.

This dynamic has occasionally occurred during the consideration of appropriation bills when an important issue has been in dispute, and the result has usually been serious negotiations to resolve disputes very shortly after the veto scenario has been played out for public consumption. These negotiations are necessitated by the fact that, without enacted appropriations, government agencies must discontinue operations. In contrast, a veto of a joint budget resolution might not lead to a serious negotiation because the penalty for not passing a joint resolution would not be as immediate or harsh. The most likely effect would be a delay in consideration of budgetary legislation, assuming current practices are followed. Section 303(a) of the Congressional Budget Act creates a point of order against considering budgetary legislation until a concurrent budget resolution has been adopted, and although Section 303(a) does not apply in the House after May 15 for regular appropriation bills, some proposed waivers of this provision have been denied in the

Senate.[9] These delays could eventually promote post-veto negotiations, as could the increased likelihood of sequestration.

Another reason for opposition to a joint budget resolution within the Congress is the belief that the President would not ask for a joint budget resolution if it was not of advantage to the executive branch. After a decade of interbranch conflict, this is not an unnatural suspicion (although the danger of holding it, if mistaken, is failing to take up the President on an offer to cooperate). And on its face, a joint resolution clearly appears to be a grant of additional power to the President, who would now have the opportunity to veto a budget resolution that previously could not be vetoed.

There is a simple and strong counterargument to this view, however. A budget resolution is simply a plan that will be effective only if budgetary legislation is enacted. Since the President currently has the authority to veto budgetary legislation, the President already can prevent the Congress from converting its plan into action. Therefore, granting the President the authority to veto the plan as well gives the President no additional power.

Even after acknowledging this point, it is still possible to believe that the Congress would be somewhat disadvantaged by negotiating over aggregates early in the year in addition to negotiating over individual bills late in the year. One explanation that has been put forward is that the President would not be under as great pressure to conclude a deal in the budget resolution. In contrast, Presidents are said to abandon bargaining positions when confronted with a continuing resolution because of the undesirable effects when government agencies discontinue operations. This explanation assumes that the Congress does not also draw back on some bargaining positions to prevent shutdowns, but there is a great deal of anecdotal evidence that both branches are flexible enough to arrive at acceptable continuing resolutions. The explanation also assumes--probably incorrectly--that the President is incapable of telling the Congress early in the process which of its positions are unacceptable, or that the Congress is incapable of making an accurate assessment of this threat. Furthermore, it seems likely that the President can profitably blame the Congress for causing a veto if it stubbornly rejects the President's position. A reasonable conclusion is that late negotiations over individual bills do not materially disadvantage the President, despite public Presidential protests to the contrary.10/ Given that continuing resolutions do not give additional bargaining leverage to the Congress as a whole, there

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[9] See Robert Keith, "Waivers of the 1974 Budget Act Considered in the Senate During the 100th Congress," Congressional Research Service (February 3, 1989), and "Senate Consideration of Regular Appropriations Bills Under Waivers of Section 303(a) of the 1974 Budget Act," Congressional Research Service (January 18, 1989).

10/ See Joe White, "The Continuing Resolution: A Crazy Way to Govern?" The Brookings Review (Summer 1988), pp. 28-35; and Louis Fisher, "Continuing Resolutions: Can't Live With 'em, Can't Live Without 'em," Public Budgeting and Finance (Summer 1988), pp. 101-104.

would seem to be little, if any, strategic disadvantage to the Congress from reaching an interbranch budget agreement earlier.

Besides changing the timing of an agreement, using a joint budget resolution would also shift the initial focus of a budget agreement from individual bills to budgetary aggregates. This could change the character of the interbranch debate, emphasizing how much borrowing is desirable rather than which programs should get how much funding. Some argue that this would cause a diminution of Congressional power, assuming that the Congress desires to spend and borrow more than does the President. There is no uncontestable evidence supporting this assumption, however. And even if the assumption was correct, the shift of emphasis would probably be small, as references to the likely sources of revenue increases and spending cuts have always found their way into concurrent budget resolution debates, and cannot be expected to be absent from joint resolution debates.

Finally, a joint resolution could be viewed as hurting the position of the Congress not only by changing the character of the debate, but also by restricting the ability of the Congress to structure agreements. In the current system, the Congress decides the order in which bills are sent to the President and the composition of these bills. Many observers believe that the Congress can benefit from using this "agenda power." For example, Presidents often complain that the Congress compiles items into appropriation bills in order to weaken the veto power.11/

The practical effect of such agenda power is probably small, however. Consider the effect of the item veto in the states--a useful parallel because giving governors the item veto takes the power to determine the composition of bills away from legislatures. In theory, states where the governor has the line item veto power should have lower spending than those states where the governor does not, after controlling for other factors, and assuming that governors prefer to spend less than legislatures.12/ Empirical researchers have concluded, however, that there is no such effect, or that this effect is quite small.13/ A plausible explanation for this result is that governors who lack an item veto simply refuse to sign bills unless objectionable provisions are dropped.

11/ If this is the case, the Congress could be advantaged if it packaged plans about future legislative provisions into another omnibus bill--the joint budget resolution. Recent research, while far from definitive, suggests that packaging spending decisions into a budget resolution does not necessarily lead to lower spending. Given some distributions of Congressional preferences, using budget resolutions could lead to higher spending than would be expected under a system of separately-considered spending bills. See John Ferejohn and Keith Krehbiel, "The Budget Process and the Size of the Budget," American Journal of Political Science 31 (May 1987), pp. 296-320.

12/ For a formal analysis, which also shows that the effects of the item veto can be more complicated than described here, see James A. Dearden and Thomas A. Husted, "Executive Budget Proposal, Executive Veto, Legislative Override, and Uncertainty: A Comparative Analysis of the Budgetary Process," Public Choice 65 (April 1990), pp. 1-19.

13/ See, respectively, David C. Nice, "The Item Veto and Expenditure Restraint," Journal of Politics 58 (May 1988), pp. 487-499; and Douglas Holtz-Eakin, "The Line Item Veto and Public Sector Budgets: Evidence From the States," Journal of Public Economics 36 (1988), pp. 269-292.

Similarly, a President can refuse to sign early bills until later ones are presented, or develop a scorekeeping system that will reduce the chance that signing an early bill will force approval of an objectionable bill later in the year.

In other words, a legislature's agenda power can become quite limited if the executive refuses to accept legislative agendas as binding. In addition, a legislature can choose for other reasons to not use its agenda power. For example, to reduce internal conflict, Congressional committee and subcommittee jurisdictions are relatively fixed, but this reduces the opportunity to vary the composition of bills for strategic purposes.

To the extent that the Congress has an effective agenda power, it seems unlikely that a joint resolution would materially limit this power. Joint resolutions could produce early agreements on spending for functional or other macro categories, much like the targets for the international affairs function of the last two summit agreements, but this would not prevent the Congress from subsequently tying passage of the foreign aid appropriation bill to Presidential approval of other bills.

The Budget Resolution's Functions

Another basis of opposition to the joint resolution is the fear that it would lead to overcentralization in the Congress. A negotiation between the branches over budgetary aggregates could take place only if the Congress is represented by a small group of negotiators. In the budget summits, the negotiators have ranged from the two leaders in each house to broad groups of leaders, committee chairs, and ranking members. Members of Congress have occasionally voiced their dismay at having their leaders bargain on their behalf without having the opportunity to instruct them through the regular legislative process.

Fears about the potential powers of leaders and Budget Committees have contributed to the high level of budgetary decentralization in the Congress. Some observers of the Congress suggest that this decentralization, while often valuable for the fulfillment of its representational function, makes the Congress organizationally incapable of formulating a coherent budget.[14] For evidence, they cite the frequency with which the Congress misses deadlines and the high level of conflict over budgetary issues.

Believing that attempts to construct a budget resolution--whether concurrent or joint--are likely to fail, some argue that the Congress should be content with an activity for which it is more suited--responding to Presidential proposals. Louis Fisher, for example, has suggested that the budget resolution be eliminated altogether.15/ His thesis is that when the Congress assumed the task of preparing a budget, it drew public attention away from the executive branch's performance of this role, allowing the President to escape opprobrium for proposing unrealistic budgets. Eliminating the budget resolution would take away the opportunity for the President to blame the Congress for failure to formulate its budget. Thus, it is expected that the President would be forced to propose a budget that used more realistic assumptions and was balanced in its distribution of deficit reductions.16/

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[14] A recent expression of the view that decentralization makes the Congress relatively incapable of action can be found in Michael Mezey, Congress, the President, and Public Policy (Boulder, Colorado: Westview Press, 1989). One paradox in this literature is that although the Congress is described as incapable of developing broad legislative packages, it is also criticized for using omnibus appropriation bills.

Yet if the Congress were to disclaim responsibility for setting budgetary aggregates, increased presidential responsibility is not the only possible result. The President could still find the "dead-on-arrival" strategy attractive, supplemented with criticism of the Congress if it did not pass bills that were consistent with the President's budget. The President would be able to claim, as did Presidents before the passage of the Congressional Budget Act, that the Congress was enacting bills without regard to a budget total.

Even allowing for the widespread discontent with the budget process within the Congress, it seems unlikely that Members of

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15/ See his March 21, 1990 testimony before the House Committee on Rules and "The Budget Act of 1974: A Further Loss of Spending Control," in W. Thomas Wander, F. Ted Hebert, and Gary W. Copeland, Congressional Budgeting: Politics, Process, and Power (Baltimore: Johns Hopkins University Press, 1984), pp. 170-189.

16/ For discussion of a related proposal, see Bernard T. Pitsvada, "The Executive Budget--An Idea Whose Time Has Passed," Public Budgeting and Finance 8 (Spring 1988), pp. 85-94, and following comments on pp. 95-107 of the same issue.

Congress would want their budget powers to atrophy. Not preparing a budget resolution would make it harder for a partisan majority in Congress to show that it can "govern" as well as, and perhaps better than, a President from the opposite party. Even without the motive of partisan opposition, Members of Congress have a clear record of proposing comprehensive, consensus-oriented solutions to the deficit problem, in part because they believe that formulating a budget is a constitutional responsibility for the institution that has been granted the power of the purse.

Budget resolutions may represent the minimum amount of centralization that is necessary for the Congress to pass individual bills and meet its own expectations. Without targets for aggregates and for committees, and without point of order enforcement provisions, committees would have greater latitude to report legislation that would cause the desired but unspecified deficit to be exceeded. Budget resolutions also create reconciliation instructions, which direct committees to report changes in mandatory spending and revenue law. Without the agreement in a budget resolution that a portion of deficit reduction would come from these areas, there would be no procedural expectation that committees other than the Appropriations Committees would report deficit-reducing legislation.

It seems unlikely that negotiations over a joint resolution would depart significantly from the consensual nature of the current process of developing a budget resolution. Budget resolutions are not imposed by an overbearing leadership and all-powerful budget committees; instead, they are coaxed out of the membership. While the details of the budget are often discussed during preparation of the resolution, committees have a great deal of freedom to ignore the programmatic assumptions used in preparing the resolution, face no penalty for failing to meet reconciliation instructions, and can propose that points of order triggered by the resolution be waived. Relying on the leadership to represent the Congress in interbranch negotiations seems like a low-risk strategy, given the multiple opportunities the membership has for communicating with the leadership. In addition, centralization of this type is traditional in the Congress during periods when it is facing challenges to its authority from the President and difficult fiscal and other problems.17/

Enforcement

The final issue discussed here is the potential effect of a joint budget resolution on enforcement. Because the budget resolution would be a law rather than a Congressional rule, it could create the presumption that the government's intention to meet the budget resolution's goals is stronger than under the concurrent resolution. Members of Congress and the President would have the slight rhetorical advantage of a statutory basis for demanding

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17/ See W. Thomas Wander, "Patterns of Change in the Congressional Budget Process, 1865-1974," Congress and the Presidency 9 (Autumn 1982), pp. 23-49; and Lawrence C. Dodd, Congress and Public Policy (Morristown, N.J.: General Learning Press, 1975).

compliance.

This effect would be strictly symbolic, for although the budget resolution would be a law, any subsequent law in conflict with the budget resolution would in effect amend or repeal it. In addition, the Congress could change any enforcement provisions in a joint resolution without having to pass another statute, because Article I, Section 5 of the Constitution stipulates that each house of the Congress shall determine its own rules.

Should there be concern about the President being able to veto procedural provisions for the Congress, the Congress could restrict the content of the joint budget resolution to budgetary aggregates, and also include functional and/or other macro categorizations if desired. At the same time the joint resolution was passed, the Congress could pass a concurrent resolution that would establish committee budget allocations and any other procedures deemed necessary by the Congress. The Congress would retain the flexibility to propose such changes in the content of the joint resolution in each year.

Enforcement could also be eased if the experience of recent budget summits continues, in which some technical disagreements between the branches have been resolved as part of the negotiations.

CONCLUSION

Among the various meanings of the word "resolution" are "a course of determined action" and "a solution to a problem." The emphasis in concurrent budget resolutions has been the expression of the preferred course of the Congress. A possible effect of making the budget resolution a joint resolution would be to shift the process somewhat toward an interbranch search for a solution to the budget deficit problem.

Adopting a joint resolution procedure would certainly not guarantee a successful negotiation between the branches. Some conflict is natural, given the constitutional design in which two powerful institutions have different electoral bases and overlapping powers and responsibilities. But a joint resolution could create the expectation that the branches would begin negotiations early in the process. This could reduce the effort currently expended in just deciding to hold negotiations.

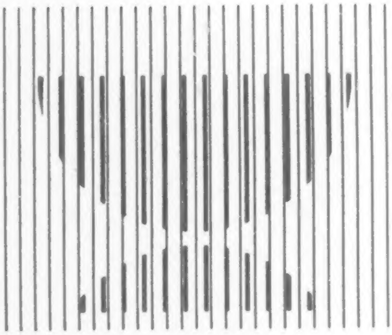
A major concern of Members of Congress is that having the President participate in drawing up the government's budget plan could cause the Congress to lose power. Given that the President already has the authority to veto budgetary legislation, such a loss of power would probably be small, to the extent that it exists at all. Moreover, the Congress has been willing to negotiate general budgetary policy with the President in the past, so a joint resolution process would not be a new undertaking. It would merely formalize the budget summits that have been held in recent years.

By granting the President a formal role in preparation of the budget resolution, the Congress would acknowledge that the President is a constitutionally equal partner in the consideration of budget legislation. This could benefit the Congress by serving notice that the Presidential responsibility to participate in budgeting does not stop temporarily after the submission of the President's budget and begin again when enacted legislation is presented to the President.

CBO STAFF MEMORANDUM

PAY-AS-YOU-GO BUDGETING

March 1990



THE CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

This Congressional Budget Office Staff Memorandum describes and analyzes a proposed budget process reform: pay-as-you-go budgeting. It was prepared by Roy T. Meyers of the Budget Analysis Division under the supervision of Marvin Phaup. Questions regarding the memorandum should be addressed to Roy T. Meyers at 226-2837.

PAY-AS-YOU-GO BUDGETING

The budgeting concept of "pay-as-you-go" is inherently attractive to those who are frustrated by high levels of government borrowing. To some, the concept implies a willingness to raise sufficient revenues to pay for spending, rather than to borrow. Yet the practical meaning of pay-as-you-go has differed within government. In a number of state and local governments, pay-as-you-go has described a policy where proposed capital spending is not adopted, if financed with credit, but is deferred until enough cash exists to pay for the spending. In the federal government, pay-as-you-go has traditionally described the rolling finances of Social Security and retirement benefit programs, where benefits based on past earnings are funded from current tax receipts.

A quite different pay-as-you-go concept has been suggested as a partial alternative to current procedures for reducing the federal deficit. Any proposed legislation that, if adopted, would cause the projected deficit to increase above a deficit target would have to be "paid for" by either offsetting spending decreases or revenue increases. Proposals of this type were offered by Representative George Miller (D-CA) and other House Members from 1982 through 1984, and by Senators Dodd (D-CT) and Proxmire (D-WI) in 1985, but were not adopted. House and Senate Democrats again considered pay-as-you-go in 1989, primarily in search of a substitute for the budget targets and sequestration procedure established by the Balanced Budget Act. In 1990, Representative Leon Panetta (D-CA), the Chairman of the House Budget Committee, introduced a budget reform bill (H.R. 3929) that included pay-as-you-go provisions and repealed the main provisions of the Balanced Budget Act.

This memorandum describes the details of the Panetta bill but it primarily addresses three issues that would be central to the consideration of any pay-as-you-go bill. First, how could a pay-as-you-go budget be defined? Second, how would setting deficit targets under the pay-as-you-go concept differ from the process established by the Balanced Budget Act? Third, how could the pay-as-you-go concept be enforced through budgetary procedures? The memorandum concludes with a general comparison of the pay-as-you-go and Balanced Budget Act approaches.

DEFINING THE PAY-AS-YOU-GO BASE

The pay-as-you-go concept is relatively simple. A budget baseline deficit would be compared with a budget base deficit, which as a subset is different and smaller. The mathematical difference is:

the budget baseline deficit
minus
the budget base deficit
equals
the deficit reduction target.

This section describes the budget baseline concept and outlines alternative changes to the baseline that would produce different pay-as-you-go bases.

The CBO budget baseline is a projection of federal government revenues and spending during the next five years, if current policies were continued without change.1/ In general, CBO's assumptions in constructing the baseline are consistent with those required by the Balanced Budget Act, as amended, for estimating whether sequestration should occur. Table 1 shows the baseline for fiscal years 1989 through 1995.

Changes in baseline revenues and spending are the result of forecasted changes in economic and programmatic conditions. Real economic growth, unemployment, interest rates, and inflation are the most important economic conditions. Revenue projections are especially responsive to assumptions about inflation, economic growth, and unemployment.2/ Forecasted inflation is especially important on the spending side. Programs financed through annual appropriations are assumed to receive constant real funding--that is, the base-year funding is raised by projected annual price increases.

Many direct spending programs, for which the Congress provides funding directly in substantive legislation, are also sensitive to inflation. The baseline raises base-year funding for direct spending programs with cost-of-living adjustments (COLAs) and for programs that respond automatically to cost pressures (such as Medicare and Medicaid). Assumptions about programmatic conditions also play an important role in baseline projections for direct spending programs. For example, assumed growth in the number of beneficiaries eligible for entitlement programs, such as Social Security, cause outlays to increase.

The pay-as-you-go base is a projection of spending that does not include some or all of the growth from the current year's level. Table 2 shows the components of growth in outlays from the

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1. For a detailed description of the CBO baseline, see CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), Appendix B. The data in this memorandum are consistent with the projections in this report.

2. See CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), pp. 53-58.

TABLE 1. BASELINE BUDGET PROJECTIONS AND UNDERLYING ASSUMPTIONS

	1989	1990	1991	1992	1993	1994	1995
				Budget Projections (By fiscal year)[a]			
				In billions of dollars			
Revenues	991	1,067	1,137	1,204	1,277	1,355	1,438
Outlays	1,143	1,206	1,275	1,339	1,418	1,484	1,555
Deficit	152	138	138	135	141	130	118
Deficit Targets[b]	136	100	64	28	0	b	b
				As a percentage of gross national product			
Revenues	19.2	19.6	19.6	19.5	19.4	19.3	19.3
Outlays	22.2	22.1	22.0	21.7	21.5	21.2	20.8
Deficit	2.9	2.5	2.4	2.2	2.1	1.8	1.6
				Economic Assumptions (By calendar year)			
GNP (Billions of current dollars)	5,235	5,534	5,893	6,279	6,688	7,121	7,579
Real GNP Growth (Percentage change)	2.9	1.7	2.4	2.5	2.5	2.4	2.4
Implicit GNP Deflator (Percentage change)	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Fixed-Weighted GNP Price Index (Percentage change)	4.5	4.1	4.3	4.3	4.3	4.3	4.3
CPI-U (Percentage change)[c]	4.8	4.0	4.3	4.3	4.3	4.3	4.3
Civilian Unemployment Rate (Percent)	5.3	5.6	5.5	5.5	5.5	5.5	5.5
Three-Month Treasury Bill Rate (Percent)	8.1	6.9	7.2	6.9	6.5	6.1	5.8
Ten-Year Government Note Rate (Percent)	8.5	7.8	7.7	7.6	7.5	7.4	7.3

SOURCE: Congressional Budget Office.

a. The budget figures include Social Security, which is off-budget but is counted for purposes of the Balanced Budget Act targets. For comparability with the targets, the projections exclude the Postal Service, which is also off-budget.

b. The Balanced Budget Act established targets for 1988 through 1993.

c. CPI-U is the consumer price index for all urban consumers.

TABLE 2 COMPONENTS OF CBO BASELINE SPENDING PROJECTIONS (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
1990 Level	1,205	1,205	1,205	1,205	1,205
Current Law Increases					
COLAs for entitlement programs[a]	10	25	41	57	74
Increases in price of medical care[a]	4	9	16	24	32
Increases in entitlement program caseloads	7	14	22	30	40
Increases in use of medical care[b]	11	23	36	48	61
Rising benefits for new Social Security beneficiaries[b]	6	10	13	16	20
Expected changes in offsetting receipts	c	-3	-6	-9	-12
Increased interest costs	6	12	20	25	29
Other	14	15	22	16	13
Subtotal	59	105	164	209	257
Inflation Adjustments to Maintain Real Spending for Discretionary Programs					
Defense purchases	3	9	16	24	32
Defense pay	3	8	12	17	22
Nondefense purchases	3	8	15	22	29
Nondefense pay	1	3	5	7	9
Subtotal	11	28	48	70	93
Total Increases	70	134	212	279	350
CBO Baseline	1,275	1,339	1,418	1,484	1,555

SOURCE: Congressional Budget Office.

a. Represents program growth that could be eliminated by freezing cost-of-living adjustments and certain medical reimbursement rates.

b. All growth not explained by increases in caseloads and prices.

c. Less than $500 million.

current level in fiscal year 1990 to the baseline projection in future years.3/ These components can be "mixed and matched" to develop alternative pay-as-you-go bases. The following three pay-as-you-go bases illustrate possible options: "noninflation-adjustment," "current level," and "discretionary outlay freeze." Consistent with H.R. 3929, all three options have defined the pay-as-you-go revenue base as equal to the revenue baseline, even though the revenue baseline includes increases from the current year's level of revenues. In general, suggested pay-as-you-go bases have been designed to produce deficit targets of preferred sizes; they often make arbitrary distinctions between spending that would be included in the base and spending that would be optional.

The first and most commonly discussed pay-as-you-go base would assume no inflation adjustments to programs. Specifically, this base assumes that COLAs would not be provided to entitlement programs, reimbursement levels for medical services would not be increased, and inflation adjustments would not be provided to discretionary programs. Table 3 shows this "noninflation-adjustment" pay-as-you-go base, which implies a deficit of $112 billion in fiscal year 1991.4/ This pay-as-you-go deficit target for fiscal year 1991 would be $48 billion higher than the Balanced Budget Act target for that year.

The second and most stringent pay-as-you-go base would strip almost all sources of growth out of the baseline. It would assume that COLAs and inflation adjustments for discretionary appropriations would be denied, and that spending growth from increases in beneficiaries of entitlements and in their use of government programs would also not be permitted. This version would make the pay-as-you-go base roughly equivalent to projected current year spending.5/ Table 3 shows this "current level" pay-as-you-go base, which implies a deficit of $72 billion in fiscal year 1991. The pay-as-you-go deficit target for fiscal year 1991 would be $8 billion higher than the Balanced Budget Act target for that year.

A third pay-as-you-go base would be less demanding, with only discretionary programs assumed to be frozen at their current outlay levels. This base would permit spending to increase for entitlements and other mandatory programs. Table 3 shows this "discretionary outlay freeze" pay-as-you-go base, which implies a

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3. The "current level" is an estimate of outlays for the current fiscal year, based only upon enacted law.

4. The three projected bases adjust for the effect of lower spending on net interest outlays.

5. The only increases above current levels allowed for are for interest costs.

TABLE 3. Alternative "Pay As You Go" Bases and Deficit Targets (by fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Revenue Baseline	1,137	1,204	1,277	1,355	1,438
Noninflation-Adjustment Outlay Base	1,249	1,273	1,302	1,312	1,319
Current Level Outlay Base	1,209	1,207	1,203	1,189	1,170
Discretionary Freeze Outlay Base	1,264	1,309	1,365	1,404	1,446
Noninflation-Adjustment Deficit Targets	112	69	25	-43	-119
Current Level Deficit Targets	72	3	-74	-166	-268
Discretionary Freeze Deficit Targets	127	105	88	49	8
Balanced Budget Act Deficit Targets	64	28	0	a	a

SOURCE: Congressional Budget Office.

a. The Balanced Budget Act established targets only through 1993.

deficit of $127 billion in fiscal year 1991. The pay-as-you-go deficit target for fiscal year 1991 would be $63 billion higher than the Balanced Budget Act target for that year.

The pay-as-you-go base in the Panetta bill, H.R. 3929, is a "noninflation-adjustment" base with the important exception that COLAs would be included for the two Social Security trust funds (the Old Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund). The COLAs for these funds constitute 70 percent of the COLA growth for entitlement programs, and 50 percent of the inflationary growth in direct spending programs.

SETTING DEFICIT REDUCTION TARGETS

Although proponents of pay-as-you-go would like to repeal the Balanced Budget Act, they have provided a substitute that resembles the Balanced Budget Act in some respects. The Balanced Budget Act and pay-as-you-go both plan a multiyear series of deficit reductions, rather than waiting for each year's budget resolution to determine how much the deficit should be reduced.

The Balanced Budget Act formula set declining annual deficit targets over five years toward the goal of a balanced budget. The required deficit reductions under this process are a function of the extent to which the baseline exceeds these scheduled deficits. Pay-as-you-go budgeting would not establish specific deficit targets in advance; instead it would make such targets a function of the annual growth in revenues and in the pay-as-you-go spending base. Deficit reduction targets would be the annual differences between the pay-as-you-go base and the budget baseline.[6]

If multiyear deficit targets are preferred, what does pay-as-you-go have over the Balanced Budget Act approach? Three suggested advantages are examined here. First, pay-as-you-go budgeting is thought to be somewhat less procyclical in effect. Second, the government might use more realistic figures with pay-as-you-go budgeting when addressing the problem of the deficit. Third, the composition of deficit reductions under pay-as-you-go budgeting could be different than under the Balanced Budget Act.

Procyclical Effects

As economic growth slows, the government's revenue decreases and its spending increases. CBO calculates that a real growth rate one percentage point less than currently forecast would cause revenues to decline by $23 billion and outlays to increase by $4 billion for fiscal year 1991.7/ Under the Balanced Budget Act, slower growth could require that the government make larger deficit reductions than were expected at the beginning of the year if the downturn occurs between the submission of the President's budget and the economic forecast in July on which sequestration would be based. The Balanced Budget Act's deficit targets would remain unchanged even if the government's projected baseline deficit increased.

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[6] H.R. 3929 would require an additional $10 billion of deficit reduction annually in 1991, 1992, and 1993.

Pay-as-you-go budgeting could also require larger deficit reductions than expected if a downturn occurs in this period, but the increase would be much larger under the Balanced Budget Act. Under pay-as-you-go, deficit targets would grow only to the extent that baseline spending rose further above the base (the previous year's spending). Unlike the Balanced Budget Act, revenue declines would not produce a requirement for additional deficit reductions. And if direct spending bills were enacted before a downturn in economic conditions was recognized, they could escape the pay-as-you-go requirement.

This difference is not that meaningful. The Balanced Budget Act includes a provision that requires the Congress to vote on whether to cancel a sequestration or not, if one of two low economic growth "triggers" are activated.8/ This provision could mitigate the potentially greater procyclical effect of the Balanced Budget Act if a recession occurs or were projected. More importantly, the Balanced Budget Act would not require additional deficit reductions if economic growth declines unexpectedly after the July forecast.

Budgetary Realism

Pay-as-you-go budgeting would still set smaller deficit reduction targets than those currently in place for the near term, assuming the "current level" pay-as-you-go base is not selected. These targets could be preferred for several reasons. First, smaller deficit reduction targets would require those in government to make fewer difficult decisions. Second, if pay-as-you-go targets are perceived as "reasonable," the government may be able to confront the deficit problem directly.

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7. The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), p. 55. This assumes that growth slows beginning in January 1, 1990.

8. The triggers are (1) two quarters of less than one percent of real economic growth, and (2) a forecast of two quarters of negative real growth. See CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), p. 4.

One charge frequently raised against the Balanced Budget Act is that the deficit targets established are too ambitious. For example, the required deficit reduction for fiscal year 1991 is $74 billion (using CBO economic assumptions). Such a cut is beyond expectations given the political difficulty of making deficit reductions. A consequence of overly ambitious targets has been a tendency to use overly optimistic economic assumptions and other gimmicks to "meet" these targets. Such techniques were frequently used before the Balanced Budget Act, but this problem has probably worsened.

Participants in the deficit reduction process feel that the Balanced Budget Act's requirements are so large that even good faith efforts would fail, thus justifying unrealistic assumptions. A year or two of such stalling produces a required deficit reduction of such magnitude that changing the deficit targets is the only reasonable option. The Balanced Budget Act of 1985 set the target date for balancing the budget at fiscal year 1991, but the Balanced Budget Reaffirmation Act of 1987 slipped the target date to fiscal year 1993.

Proponents of pay-as-you-go budgeting feel that the reasonably-sized deficit reduction targets established under this approach would provide less of a justification to compromise the process. Yet, even if the justification for using unrealistic assumptions became weaker, an incentive to do so would still exist for those who would prefer to avoid difficult decisions. Pay-as-you-go is clearly not a sufficient condition for honesty in budgeting.

In addition, pay-as-you-go budgeting might make it more difficult for some to understand the long-term effect of using unrealistic assumptions (or of failing to enforce a realistic pay-as-you-go target). For example, if $20 billion of deficit reductions were required by pay-as-you-go--that is, if the baseline exceeds the budget base by $20 billion--what happens when the government does not reduce spending or increase revenues to produce the required deficit reductions? The resulting $20 billion of excess spending would then be built into the following year's budget base, and pay-as-you-go would require only that the projected growth from this higher spending base be paid for with offsetting savings. In contrast, under the Balanced Budget Act, such failures to reduce the deficit are readily apparent because the deficit targets continue to decline.

The Composition of Deficit Reductions

Pay-as-you-go budgeting could cause the composition of deficit reductions to change from that required under the Balanced Budget Act. If appropriations and reconciliation legislation do not produce sufficient savings to meet the deficit target, sequestration under this act determines how programs will be cut. The reductions are equally divided between defense and nondefense spending. Sequestration excludes most direct spending and prior-year obligations from coverage, applies special rules to the reduction of spending in some programs (primarily health spending), and then makes proportional reductions in the remaining spending. Using CBO assumptions, 35.3 percent of 1991 budget baseline outlays would be subject to sequestration, with discretionary appropriations providing over 95 percent of the savings.

In contrast, if pay-as-you-go budgeting used the "noninflation-adjustment" base, and this base was enacted into law, the relative contribution of discretionary appropriation accounts to savings would be cut to less than one-half of the total. The remainder of the savings would result from not providing inflation adjustments for direct spending programs.

This difference between pay-as-you-go budgeting and the Balanced Budget Act is probably overstated. The threat of sequestration would likely cause the government, as it has in the past, to produce some deficit reductions through cuts in direct spending and revenue increases, which would reduce the burden on discretionary appropriations. In a similar fashion, the pay-as-you-go base would probably not be enacted into law without modification.

In addition, pay-as-you-go is at an earlier stage of legislative development than the Balanced Budget Act. The original version of the Balanced Budget Act was as broad in coverage as pay-as-you-go, but advocates for some targeted programs successfully lobbied for exemptions from sequestration. For example, low-income programs were exempted before its enactment, and spending by regulators of depository institutions and for COLAs were exempted through subsequent revisions to the act. The original breadth of the pay-as-you-go plan concept could be similarly limited as it moves through the legislative process. Under H.R. 3929, for example, Social Security COLAs are built into the base, but other COLAs are not. The protection for Social Security provides a rationale to press for other inclusions as well.

The other possible effect of pay-as-you-go budgeting on the composition of deficit reductions is that emphasis could be shifted away from spending reductions to a balanced consideration of spending and taxing. This effect would be partially rhetorical. If spending increases "must be paid for," proponents of these increases would have a better justification for suggesting new revenues. Some proponents of pay-as-you-go also hope that new procedures would be established to make tax increases and offsetting spending cuts more likely.

The reach of sequestration could be similarly modified to include revenue increases. For example, draft legislation has been circulated in which one-half of the required deficit reduction would come from sequestration and the other half from an automatic surtax on individual income and corporate profits taxes. Another approach has been suggested by William Niskanen, former chair of the Council of Economic Advisers. He has proposed that sequestration be replaced with an surtax on income taxes if outlays from new legislation cause target outlays to be exceeded.9/

PROCEDURES FOR ENFORCING PAY-AS-YOU-GO

Pay-as-you-go proponents have not discussed enforcement at much length. Perhaps this is in part because of an assumption that existing budget procedures could be modified to make pay-as-you-go workable.10/ This view is not unreasonable, for certain existing budget procedures follow the principle that proposed spending must be deficit-neutral. In the House, legislation is subject to a point of order when a committee's allocation for new budget authority and entitlement authority would be exceeded and cause the aggregate budget authority ceiling to be violated. In the Senate, any legislation that would cause a committee's allocation of new budget authority or outlays to be exceeded is subject to a point of order. These prohibitions force committees that wish to spend above their allocations to either find offsetting cuts or convince the House or Senate to waive the rules.

This section describes various enforcement procedures that could be used to convert the concept that deficit increases "must be paid for" into a workable process. It begins with the predominant "macro" model of pay-as-you-go, which emphasizes making tradeoffs in the budget resolution and the reconciliation process. It then turns to a "micro" model of pay-as-you-go, which requires that spending above a committee's base be simultaneously offset with savings from other committees, without relying on the budget resolution to structure these tradeoffs. The macro and micro models of pay-as-you-go budgeting create different enforcement problems.

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9. This procedure could be labeled "Pay After You Went." See National Economic Commission, Staff Papers, Background Papers, and Major Testimony (March 1989), pp. 453-4.

10. The enforcement provisions in H.R. 3929 are as follows: It requires that the President's budget meet the "pay as you go" budget targets, including a specification of programs that would receive spending increases and the sources of funds for these increases (offsetting spending reductions and/or revenue increases), and it also creates a point of order against considering bills that if adopted would cause the deficit to exceed the "pay as you go" deficit.

Macro Pay-As-You-Go Enforcement Procedures

In the macro model of pay-as-you-go, the budget resolution would determine which committees would be granted the authority to spend above the base and which committees would be directed to cut spending below the base and/or to raise new revenues to pay for this spending. The enforcement problem is how to ensure that the latter committees will comply with the budget resolution's expectations. Existing budget procedures would be adequate for the task if the Appropriations Committees were the sole source of this financing, because the Committees' allocations could be reduced below the base for their programs. For other sources of financing--cuts in direct spending or new revenues--existing budget procedures might not be sufficient.

The only way to limit growth in direct spending programs is to change existing law; this is typically done through the reconciliation process. For example, under the "noninflation-adjustment" option, the relevant committees could be directed by the budget resolution to report legislation that would save amounts equivalent to what would be saved from cancelling COLAs and other automatic price adjustments.11/ But reconciliation instructions have traditionally not specified the source of savings, meaning that committees would be free to substitute savings from other sources to prevent the cancellation of inflation adjustments. The committees would probably be motivated to do so, given the political support for COLAs in entitlement programs. Yet, the composition of the pay-as-you-go base could create a strong presumption that the inflation adjustments should be cancelled. The conflict created in this situation might make it less likely that reconciliation would be a sufficient mechanism to convert the pay-as-you-go base into law. Reconciliation directives are not binding in the sense that a failure of a committee to respond leads to the immediate imposition of a penalty on the committee; and reconciliation instructions have often not been met in amount or on time, most recently in 1989. The result was sequestration, which penalized primarily appropriated programs for the failure of authorizing committees to reduce direct spending.

How could the government make it more likely that the savings intended to finance pay-as-you-go increases be produced? One approach would be to comprehensively revise substantive law when pay-as-you-go budgeting is adopted, which would eliminate automatic spending increases. Programs that under current law pay COLAs would be "deindexed." The government could still increase spending for these programs annually but only by taking positive actions.

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11. Changes in existing law would need to be quite radical for the "current level" base. Benefit payment levels would have to be reduced to provide the funds to pay benefits to newly eligible beneficiaries if the total population increases.

One method of financing COLAs under this approach would by requiring discretionary appropriations for permanently authorized COLAs. Alternatively, annual authorizing legislation could also be required to adjust benefit levels for increases in the cost of living, as done in the veterans compensation program. The other mandatory spending increases, which are typically driven by changes in the number of beneficiaries or changes in their use of services, would probably have to be controlled by granting agency administrators the authority to reduce benefit levels or to ration services.

The history of the indexation of government programs suggests that it is unlikely that the government would abandon indexing wholesale.12/ An alternative approach to the enforcement problem would make enactment of spending increases and revenue decreases contingent on the availability of "surplus funds." Surplus funds would be created by legislative action and would represent revenue increases above the baseline and savings from the spending base.

One mechanism for holding deficit-increasing legislation until the generation of surplus funds would be deferred enrollment. Enrollment is the process by which a bill passed in identical form by both the House and the Senate is printed on special parchment paper before it is sent to the President for approval or veto. Section 301(b)(3) of the Congressional Budget Act permits the budget resolution to establish a procedure for deferring the enrollment of bills providing increases in spending until the resolution's reconciliation instructions are met.13/

Another mechanism for enforcement would be to have the budget resolution identify the deficit-increasing legislation that would be contingent on the availability of surplus funds. A similar approach was used during fiscal year 1987, when the budget resolution established a procedure for increasing committee budget allocations by a limited amount if the President and the Congress agreed on the need for additional spending and financed it with

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12. See R. Kent Weaver, Automatic Government: The Politics of Indexation (Washington, D.C.: Brookings, 1988).

13. This procedure has never been used in this form, although a modified form of deferred enrollment has been used to threaten committees with a penalty should they exceed their committee allocations. See Committee on Rules, House of Representatives, Issue Presentations Before the Rules Committee Task Force on the Budget Process (October 1984), pp. 138-9, 184-5.

offsetting savings.14/

If surplus funds were insufficient to finance all of the desired deficit-increasing actions, which deficit-increasing actions would be approved and which would not? The Congress could anticipate this problem by ranking actions beforehand, or by allowing proportional increases above the base for all the actions. Alternatively, the Congress could enact a bill that would make specific changes to the bills that had already passed so that the pay-as-you-go deficit target would be met. This is similar to the intended purpose of the reconciliation process when the Congressional Budget Act was enacted. This approach would require the Congressional leadership and the Budget Committees to broker a package in which bills that had completed almost all of the stages of the legislative process would be amended.

A third enforcement mechanism would deemphasize the sequential budget resolution and reconciliation procedure and rely on an omnibus budget bill--one that included all appropriations, direct spending legislation, and revenue legislation. This procedure would implicitly allocate surplus funds by simultaneously considering tradeoffs between proposed spending increases, spending cuts, and revenue increases. Representatives Obey and Gephardt advocated using such an omnibus procedure in the early 1980s.15/ Passage of an omnibus budget bill could be subject to a point of order that would require the projected deficit after passage to be no larger than the pay-as-you-go deficit target.

Using an omnibus budget bill would be a high-risk, high-return approach. On the one hand, the high risk is that it would slow up passage of portions of the budget because agreement would have to be reached on all controversial issues before the omnibus budget bill could pass. The number of controversial issues likely to be considered would be large, as the omnibus bill would be the major "must-pass" legislative vehicle of each session. This burden could ensure that the Congress would have to rely on short-term continuing resolutions until a budget was enacted. The Congressional leadership and the Budget Committees would have to be given the authority to structure consideration of an omnibus budget bill in order to minimize the chances of such delays.

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14. See Section 3 of the resolution. The conference report was House Report 99-664, September 26, 1986. This procedure was not used.

15. See H. Res. 213, introduced in the 98th Congress on May 25, 1983. The Congress has relied on omnibus appropriation bills with increasing frequency in the 1980s. See Allen Schick, "The Whole and the Parts: Piecemeal and Integrated Approaches to Congressional Budgeting," House Budget Committee, Serial CP-3 (February 1987), p. 44.

On the other hand, the high return is that an omnibus budget bill would simplify enforcement of pay-as-you-go budgeting. It would probably also stimulate more Presidential involvement in reaching a broad agreement on budget policy. As a result, an omnibus budget bill might also strengthen the President's desire to obtain the item veto and the willingness of Members of Congress to grant this power.

Micro Pay-As-You-Go Enforcement Procedures

In the "micro" model of pay-as-you-go budgeting, coordination through the budget resolution and associated enforcement procedures would be deemphasized. Instead, the pay-as-you-go concept would be applied at the committee level. A committee intending to propose a spending increase above the pay-as-you-go base for the programs within its jurisdiction would simultaneously have to finance the increase from one of two sources--either an offsetting cut for a program within another committee's jurisdiction, or a revenue increase. This approach would currently be unworkable. Numerous House and Senate rules about referring bills to committees and floor consideration of bills and amendments would be substantial barriers for most committees seeking to use either option. The major exceptions would be the House Ways and Means and the Senate Finance Committees, which have jurisdiction for about 90 percent of direct spending outlays as well as for all revenues. These committees could dedicate revenue increases to finance spending increases for programs within their jurisdiction.

One option for overcoming this problem would be to relax the rules that protect committees from raids on programs within their jurisdiction. A spending committee could be given the right to draft legislation that would raise revenues or cut spending in programs not in its jurisdiction. This legislation could then be sequentially referred to the affected committees, which would have the right to propose modifications to the legislation before being automatically discharged after a specific time from considering it. Such an approach would be a radical departure from tradition. Committees view control over their legislative agendas as the main source of their power. Though there are numerous examples of committees writing legislation for areas that other committees consider to be their responsibility, these occasions have often created conflicts only resolved after difficult committee-to-committee bargaining sessions and heavy leadership involvement.

If increased conflict were judged to be an acceptable cost, however, the leadership would also have to solve a queueing problem to make the micro version of pay-as-you-go workable. The requirement that committees finance spending increases with surplus funds would create an incentive for committees to rapidly report legislation in order to access potentially available surplus funds before other committees. On the one hand, its advantage would be the committees' incentive to pass budget legislation earlier rather than later. On the other hand, committees could plan to offset spending increases with specific surplus funds, only to find that other committees accessed these funds beforehand. This result would require the slower committees to return to the mark-up stage and to find new financing. In addition, this approach would penalize committees that had to report late for technical reasons, such as delayed authorizations.

SUBSTITUTING PAY-AS-YOU-GO FOR THE BALANCED BUDGET ACT

Pay-as-you-go budgeting is intended to serve as a substitute for the Balanced Budget Act; consequently, a comparison of the two processes is appropriate to conclude. When the Balanced Budget Act was adopted, it made two significant changes to the Congressional Budget Act: the establishment of multiyear deficit targets, and the creation of sequestration as a penalty for failing to meet these targets in the regular process. What would be the impact of using pay-as-you-go budgeting instead to set multiyear targets and to force action on the deficit?

Pay-as-you-go budgeting could lead to a different composition of deficit reductions with more cuts in direct spending and more revenue increases. These effects are uncertain, in part, because the legislation is in an early stage of development. The Panetta bill makes only one exception--for Social Security--to the "noninflation-adjustment" base, but pressure to add other exceptions is likely. Such exceptions are endemic to formula budgeting approaches. Contrary to the perception that formula budgeting is mechanical, almost any formula approach can be challenged for a failure to treat programs equitably. For example, under the "noninflation-adjustment" base, spending growth for entitlement programs due to an increased number of eligible beneficiaries would not be required to find offsetting spending cuts or new revenues, whereas any increased demand for programs funded by discretionary appropriations would have to be financed by deficit-neutral means. Because of the variety of ways programs operate and because of political considerations, formula approaches like pay-as-you-go tend to progress from the simple to the complex.

Pay-as-you-go budgeting would also produce higher deficit targets for the near term compared with the Balanced Budget Act. This result would be by design, as various pay-as-you-go bases would be evaluated not only for their suggested composition of deficit reductions but also for the magnitude of deficit reductions required. Many believe that it would be more realistic to set deficit targets higher than the Balanced Budget Act does because of the greater likelihood that the higher targets would then be met. This belief, however, suggests that the Congressional Budget Act's procedure for choosing deficit targets each year would be preferable to locking in deficit targets with either pay-as-you-go budgeting or the Balanced Budget Act.

How do the procedures in pay-as-you-go and the Balanced Budget Act compare as stimulants to reduce the deficit? The Balanced Budget Act makes the size and distribution of the penalty for not reducing the deficit relatively clear months in advance. The hope was that the penalty would be undesirable enough to force action (the indiscriminate cuts at the program, project, and activity level) but also not foolish enough to make it unlikely (the exclusion from sequestration of legal obligations to spend, and the flexibility in sequestration of defense programs). Sequestration would threaten the interests of enough participants that strong efforts would be made to avoid it. If their efforts were unsuccessful, then sequestration would at least produce some savings.

Observers of federal budgeting differ on the continued desirability of sequestration, but all agree that the penalty of sequestration has not had all of the intended effects. In some years, the expected sequestration was so large that it ceased being an effective threat. In other years, participants in the process have compared the projected impacts on their favored programs from sequestration with the regular legislative process and decided that sequestration is preferable. In addition, the rule for calculating a sequestration creates an incentive to delay passage of bills until after sequestration occurs.16/

Rather than keeping a penalty at the end of the process, pay-as-you-go budgeting would shift the penalty for not reducing the deficit to an earlier stage in the process. In doing so, the budget process is simplified, at least to the extent that there is one fewer stage. The trend has been in the opposite direction. The Congressional Budget Act grafted the budget resolution and the reconciliation process onto the existing appropriations and authorizations processes, and the Balanced Budget Act added sequestration.

For pay-as-you-go budgeting to create an effective penalty, however, enforcement procedures would have to prevent committees from approving deficit-increasing legislation unless other committees produced offsetting savings. If substantial deficit reductions are assumed to result from savings in direct spending programs or from tax increases, the current reconciliation procedure might not be sufficient to produce these expected savings. Wholesale deindexation and a committee-against-committee pay-as-you-go process are not likely to be acceptable. The most plausible options for making enactment of deficit-increasing

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16. See Committee on the Budget, House of Representatives, President Bush's Fiscal Year 1991 Budget (Committee Print, February 2, 1990), pp.113-119.

legislation contingent on offsetting savings are deferred enrollment, a reserve fund, or an omnibus budget bill. All of these approaches would make significant changes in the distribution of budgetary responsibilities within the Congress, and the omnibus budget bill would intensify negotiations between the Congress and the President over budgetary policy.

Chairman **Derrick**. Dr. Alice Rivlin, Lynn Martin was here earlier, and asked me to express her regrets that she couldn't be here with you. There was something that she told me about that was very important. Alan Wheat was here earlier; he had to go to a meeting, but we are expecting him back.

We will be glad to have you put your full statement in the record and have you summarize any way you would like to proceed.

STATEMENT OF DR. ALICE RIVLIN, SENIOR FELLOW, BROOKINGS INSTITUTION AND FORMER DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. **Rivlin**. Well, let me summarize it very briefly, Mr. Chairman. I think my views are not very different from Mr. Reischauer's. It seems to me that the budget process has deteriorated, and I think much of the problem stems from Gramm-Rudman-Hollings. Gramm-Rudman-Hollings was a well intentioned effort, but it has given us very perverse incentives in the budget process.

Chairman **Derrick**. Fritz says he wants a divorce from Gramm-Rudman.

Dr. **Rivlin**. Yes. Perhaps one should just call it Gramm-Rudman. But in any case, it is given us incentives to focus only on the next budget year. It has resulted in the gimmickry that everybody now recognizes and in very short-sighted budgeting. The best thing would be simply to repeal Gramm-Rudman-Hollings and go back to where we were before 1985. At that time the budget process, for all its faults, was functioning reasonably well, and focusing quite heavily on 3-year resolutions. In that period—1982 to 1985—there was serious attention to voting 3-year resolutions, and progress was made on the deficit.

Now, I don't realistically think you are going to do that. Repealing Gramm-Rudman-Hollings in its entirety would send the wrong signals. It would sound as though the Congress was giving up on deficit reduction. So I do believe that you have to keep some kind of targets. But you should work very hard to change the incentives in the budget process so that there is much more emphasis on longer run budget deficit reduction. The system should reward longer run reductions, not encourage short run things, like taking items off budget and moving pay dates.

It seems to me that the Panetta bill is a major step forward. It gets rid of sequestration, which was always a gimmicky sanction to enforce budget rules. Sequestration necessarily applies only to the upcoming budget year. That is its main defect.

A sanction for not meeting the budget targets that applies only to the first year encourages gimmickry. The Panetta bill, by contrast, would use the power of the House and Senate rules to enforce a 5-year budget resolution. I think that is feasible. If you can't do that, you can't do anything.

Chairman **Derrick**. Could I interrupt you just a moment?

Dr. **Rivlin**. Yes.

Chairman **Derrick**. Explain to me how you think this would work, on the 5 years. Are you telling me we need a sequestration for 5 years?

Dr. **Rivlin**. No. There isn't any sequestration in Panetta's bill.

Chairman **Derrick**. I understand that.

Dr. **Rivlin**. As I understand it, and I may understand it imperfectly, H.R. 3929 simply goes back to the notion that a point of order can be raised against anything which violates the budget resolution, whether in the first year or in its entirety. That seems to me the right sanction to be aiming for.

Chairman **Derrick**. I misunderstood what you said, I am sorry.

Dr. **Rivlin**. That seems to me the right way to go about it. It is not going to be easy, but none of this is going to be easy. Relying on the rules of the House and Senate to enforce what the Congress wants to do over a 5-year period seems to me sensible.

The only thing that I would question about the Panetta bill is what it does with social security. My view is that we ought to be aiming for a surplus in the unified budget. That is the right kind of fiscal policy. But the Congress should achieve that surplus by simply saying we need a surplus in the unified budget. That has the same implications as taking social security out of the budget and aiming for balance in the operating budget, which is what the Panetta bill strives to do.

Chairman **Derrick**. When you refer to the unified budget, you mean——

Dr. **Rivlin**. I prefer to stick with the unified budget. Social security is a big government program. To pretend that it is not in the budget seems to me disingenuous. It is part of what the Government does and it affects the economy in major ways. I would like to see it in the budget. But I don't think that is very important. It is largely a political judgment. It may be easier for the public to understand if social security is kept separate, and you aim for balance in the operating budget. If, in the political judgment of the Congress that is better, then it doesn't bother me very much. Just a little.

Chairman **Derrick**. I don't see the difference in what you are talking about. You are talking about having a unified budget, but having separate budgets within a unified budget, aren't you?

Dr. **Rivlin**. Social security is always going to be separate. It is a trust fund. It is always going to be a separate line in whatever budget you have. I am making a fairly fine point. The Panetta bill would say social security is outside the budget; it is not part of the budget. It is somewhere over there, and we are not going to talk about it. We are only going to concentrate on the operating budget. That doesn't seem to me a very realistic way to run things, but it doesn't offend me deeply either.

I think those are my main points, Mr. Chairman.

[Dr. Rivlin's prepared statement follows:]

Statement of

Alice M. Rivlin*
Senior Fellow
The Brookings Institution

before the
Subcommittee on the Legislative Process
Committee on House Rules
U.S. House of Representatives

April 19, 1990

Mr. Chairman, when I testify on budget process reform, I always find myself wanting to make two basic points simultaneously. These two points may sound contradictory, but I believe both are true and need to be emphasized up front.

The first point is that budget process reform is important. A well designed, smoothly functioning budget process can facilitate understanding of difficult budget issues and increase the chances that the Congress will make wise policy decisions. Conversely, a badly designed process can impede understanding and make wise policy less likely. Some features of the current Congressional budget procedures should be classed as impediments to wise decision-making, because they increase emphasis on the short-run and provide incentives for budget gimmickry. I believe these features should be eliminated and that H.R. 3929 would be a substantial improvement over current procedures.

The second point is that budget reform is no substitute for substantive policy action. Right now the country has a short-sighted, irresponsible fiscal policy--a persistent deficit in the unified budget when a surplus would be more likely to foster healthy economic growth in the future. Moving from deficit to surplus will take leadership and political courage. Process reform cannot help very much and should not be allowed to deflect attention from the necessity for action to cut spending or raise taxes or both--actions for which no process reform is necessary.

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*The views expressed in this statement are those of the author and do not necessarily reflect the views of other staff members, officers, or trustees of the Brookings Institution.

Problems with the Current Process

Budget decisions are inherently difficult and contentious. This is true in any organization, not just the U.S. Government. People generally, not just politicians, tend to delay or avoid hard choices and to focus on the short-run to the detriment of the long-run. A good budget process is one that:

- helps both legislators and the public understand what choices have to be made and what their implications are;
- helps legislators and the public think ahead instead of concentrating on the immediate;
- gets decisions made in a timely fashion without excessive expenditure of time and energy.

The current Congressional procedures get low marks on all these counts. The budget process, and the budget itself, are so complicated that even members themselves have difficulty understanding what is to be decided. The press and the public are totally mystified and frequently conclude that something nefarious must be going on. The incentives in the process are rigged to reward short-run deficit reduction at the expense of the long-run and to encourage budget chicanery, such as timing shifts, that reenforce the public's impression that government is involved in a charade or worse. Moreover, the whole process consumes so much time and energy that almost none is left over for actually governing the country.

These budget process problems did not originate with the passage of Graham-Rudman-Hollings (G-R-H) in 1985, but they have been greatly exacerbated by that legislation. G-R-H was a well-intentioned effort to rig the budget process in favor of deficit reduction, but it is now doing more harm than good. G-R-H reflected the hope that setting firm budget goals, and establishing sequestration as a sanction for not meeting them, would force the Administration and the Congress into the compromises needed to eliminate the unified budget deficit. Unfortunately, although the Act set deficit targets that declined to zero over a period of years, the penalty for not meeting them (sequestration) applied only to failure to meet (or appear to meet) the budget target for the year just ahead. This obsession with appearing to meet next year's target intensified existing incentives to use rosy forecasts of economic growth and interest rates, to move activities off budget, and to engage in financial gimmickry that reduced next year's deficit at the expense of future years.

The result of the misplaced incentives in G-R-H has been two-fold damage to the budget process. First, the deficit has not, in fact, come down, it has been stuck at about $150 billion for the last three years. Second, and I believe ultimately more serious, the finagling and chicanery associated with G-R-H have undermined the credibility of the budget process and reenforced public cynicism about the Congress' ability to do its job.

I believe the Congress would be well-advised to scrap G-R-H and return to the process that preceded it. Although the years between the creation of large structural deficits in 1981 and the enactment of G-R-H in 1985 are not remembered with much pleasure because they were so acrimonious, I believe the Congressional budget process functioned quite well in that difficult period. The deficit problem was enormous--actual deficits exceeded $200 billion in several years and were projected to grow to over $300 billion if action was not taken. Despite minimal cooperation from the President, Congress used the budget process to reduce projected deficits substantially. Both spending cuts and revenue increases helped to reduce projected deficits. Budget gimmickry was minimal. Perhaps most important, Congress seriously debated and passed three-year budget resolutions. Steps were taken, including reducing the rate of defense spending growth, that had relatively little impact on outlays in the first year, but much greater effects on deficits in the out years.

Simply repealing G-R-H is not politically feasible, because it might be interpreted as abandoning the goal of eliminating the deficit. Hence, the Congress should try to find a way of retaining the targets while removing incentives to concentrate on the short-run and to engage in dishonest budgeting.

H.R. 3929

H.R. 3929 is designed to meet these needs. It would set multi-year targets and enforce them in the out years as well as in the budget year. Savings over the five-year period would have to be 120 percent of the first year amount in order to count. It would enforce the targets through the House and Senate rules, not by sequestration--a preferable procedure because sequestration is a bizarre sanction that necessarily applies to the budget year only. Asset sales and timing shifts would not count as real deficit reduction.

It seems to me that H.R. 3929 is a substantial improvement over current law. It provides a better chance for Congress to undertake sensible long-run deficit reduction.

H.R. 3929 would take Social Security out of the budget calculation and aim for balance in the unified budget. It would be more sensible to leave Social Security in and aim for a surplus in the unified budget. The fiscal policy implications are the same, but Social Security is a very large government program which affects the economy and belongs in the budget. The question is not an economic one, however. It turns on political judgment about the best way for the Congress to demonstrate its concern for deficit reduction and protection of the integrity of Social Security trust funds.

The Real Problem

While I believe that H.R. 3929 would represent a substantial improvement over current budget procedures, I cannot close without coming back to the central issue facing the Congress: the budget deficit itself. The government is now engaged in short-sighted fiscal policy. It is using a substantial fraction of the nation's savings, including those generated by the Social Security System, to finance the on-going expenses of government. This policy reduces funds available for private investment, raises interest rates, and makes the United States dependent on foreign sources for a large fraction of the funds needed to finance productive investment. This situation cannot be corrected by tinkering with budget procedures. It requires a commitment of the Administration and the Congress to work out a long-run plan for moving the unified budget into surplus by some combination of lower expenditures and higher revenues. H.R. 3929 may remove some impediments to implementing that commitment, but will do nothing to bring it about. Thank you, Mr. Chairman.

Chairman DERRICK. You think we ought to abolish Gramm-Rudman-Hollings. You think we ought to abolish the Budget Act as well?

Dr. RIVLIN. No, I don't. I think that the budget act was a step toward responsible budgeting in the Congress. Before the budget act there was no forum for discussing or voting on fiscal policy as a whole, on a budget, including both spending and revenues. The budget act gave you that; I think you need that.

The Budget Act added to the complexity, but I think in a necessary way. You have to have some moment in the congressional calendar in which you vote on the budget as a whole, when you are forced to make decisions about how much revenue and how much spending and how much deficit. The budget act has given you that and has given you budget committees whose job it is to worry about the whole budget.

I think that is very important. What I don't think was a plus was the addition of Gramm-Rudman with this Mickey Mouse sequestration procedure, and the resultant incentives to look only at the short run and not at the long run.

Chairman DERRICK. Why don't we just get an accountant with a good adding machine and do away with the Budget Committee? Because as I understand, that is what you think the primary function of the Budget Committee should be, to give us an opportunity to vote.

Dr. RIVLIN. I don't think that is an accounting function. The accountant has to be there to add up the numbers, but I think——

Chairman DERRICK. What other reasonable function does the Budget Committee exercise? I mean what does it do?

Dr. RIVLIN. I think the Budget Committee, when functioning at its best, proposes to the Congress a budget, an overall frame work within which the spending and taxing fits. The proposal reflects priorities on the spending side—how much for defense and how much for health and so forth—and the appropriate revenue number and a size of deficit.

Somebody has to put together that plan, and——

Chairman DERRICK. Well, we will have two accountants then. I said we will have two or three accountants.

Dr. RIVLIN. Well, in the old days you had two or three accountants. You had somebody racking up the spending numbers, and you had somebody racking up the tax numbers, but nobody ever put the two together, nobody ever said to the Congress, is this really what you want to do? Do you want to spend this much and tax this much and have this big deficit?

Chairman DERRICK. Well, why couldn't the President, as he did in the old days, before the Budget Act of 1974, perform that function when it presents us with some sort of budget, and we could just deal with that? There are a lot of people that think that what the Congress did when they passed the Budget Act, was take the bear off of the administration's back and put it on the Congress'.

Dr. RIVLIN. I believe the Congress does have a role in formulating priorities on the budget and in formulating fiscal policy.

The President may have very different views about what the Government should do and what the size of the deficit should be than the Congress does.

One big problem is how you work out a compromise among those views. If you will forgive me a short digression, I was just in South Carolina, I was fascinated by how it is done down there. The budget control board representing both the Governor and the legislative branch sits down and makes up a budget.

I presume the U.S. Supreme Court would say that was unconstitutional, but it seems to work in an interesting way in South Carolina. It gets rid of some of the back and forth between the legislative and the executive branch.

Chairman DERRICK. They are the ones that actually spend it.

Dr. RIVLIN. But you have got to have some mechanisms in which the legislative branch is represented for formulating the priorities. I don't think you can just let the President do that.

Chairman DERRICK. You stated that you think we ought to do away with Gramm-Rudman-Hollings. Is the reason that you support Panetta because you would really like to do away with the whole thing, but Panetta is least offensive, is less offensive than Gramm-Rudman-Hollings?

Dr. RIVLIN. I think that if you just repealed Gramm-Rudman-Hollings, you could do much of what the Panetta bill would accomplish. However, I think that the Panetta bill has positive features. The most positive is the effort to get the Congress to think 5 years at a time.

I don't think it matters whether it is 3 years or 4 years or 5 years. The damage that is being done now is that you are only thinking about 1 year. The whole focus at present is how are we going to get past that next target or how are we going to appear to get past it. All of the incentives are to rig the budget so that it looks as though it is going to get to the Gramm-Rudman-Hollings target the next fiscal year, whether it does or not.

The Panetta bill changes those incentives. It puts much more emphasis on a whole period of 5 years: how is the budget going to work for that period? That seems to me good.

Chairman DERRICK. Let me talk to you just a little bit about budget summits. You know, many people around here are looking back to the 1987 budget summit with a great deal of fondness, fond memory, and I will have to say, and you know, Jim Wright during his Speakership here, for the first time in years and years and years was able to get the appropriations bills out on time, and I think not to take anything away from him, I think he was aided to a large degree because of that summit.

Now, do you think we can facilitate that? Do you think that is a good idea, other than what you just discussed a few minutes ago?

Dr. RIVLIN. I believe that the President and the Congress should come together somehow and decide on a compromise that will turn the budget deficit into a surplus over a reasonable period of years. And I don't, frankly, understand why that isn't happening.

Whether it is called a summit or just a meeting, that is the main thing that has to be done. The Congress and the President, the leadership of the Congress and the President and his people, have to sit down and say, how do we solve this problem? Let's give a little here and give a little there and get it done. Because the deficit is paralyzing the Government.

Chairman **Derrick**. You think that we ought to revise the Budget Act to the point so we can include his signature in the process?

Dr. **Rivlin**. I don't think it would hurt to have a budget resolution that had to go to the President for signature. I haven't thought about that one in awhile.

It would certainly get the President in the process earlier.

Chairman. **Derrick**. You have observed this place around here for a long time. Do you think that that would just put an unreasonable crimp in the budget process, that we would never get a budget process out of here? I mean, do you think it is doable, just in your opinion?

Dr. **Rivlin**. Oh, I think the budget process is doable.

Chairman **Derrick**. No, no. I mean, if you include the President.

Dr. **Rivlin**. If you include the President? It depends, of course, on how the President views the power. A president who really wanted to work things out with the Congress would seize that opportunity to do so early. If he really just wants to gum up the works, then I guess that is one more tool to let him do it.

Chairman **Derrick**. I gather that this pay-as-you-go enforcement procedure isn't particularly appealing to you based on what you have said so far. Is that right?

Dr. **Rivlin**. I like the general idea of pay-as-you-go, and I think——

Chairman **Derrick**. It is great politics.

Dr. **Rivlin**. Well, it is more than great politics. It is really right. If somebody is proposing major new spending, for instance, they ought to be willing to explain what is going to be given up to get that.

Chairman **Derrick**. Is it enforceable in the Panetta bill?

Dr. **Rivlin**. I don't know whether it is really enforceable or not. But I think working toward that general view of how to think about the budget is a good idea.

Chairman **Derrick**. Thank you.

Mr. Wheat.

Mr. **Wheat**. Thank you, Mr. Chairman.

Let me apologize to you and our distinguished witness for not being here to hear your testimony. I have heard you speak before and I had the opportunity to read your statement today and I think it is particularly important that you point out that no mechanisms, no budget mechanisms of any kind, are going to substitute for policy decisions that need to be made by the Congress and by the President.

I would ask you, just very briefly, why you think the deficit is important at all. I was a little surprised by your statement that we move to a position of a surplus at some point in the future. While I think this budget deficit is made up of the wrong kinds of spending, I don't know of any particular damage of having a modest budget deficit over an extended period of time. And I am wondering—you say we need to move to a surplus?

Dr. **Rivlin**. I think the main reason has to do with two things: the low national saving rate and coming demographic changes. We have a low national savings rate. We are using a large proportion of our savings to finance the operating costs of the Government.

That means we have less left for productive investment and we have higher interest rates than we would otherwise have.

And we are very dependent on the flow of foreign capital. We are borrowing abroad because we are not generating enough savings of our own and we are using so much to finance the Government.

I would like to reverse that. Particularly because as we look ahead, we are going to have a smaller labor force and a larger group of retirees. We need to make that labor force much more productive if it is going to raise its own standard of living and pay for the continued well-being of retirees.

That means we need more investment. And I think the best way to get that is for the Federal Government, instead of using up national saving, to be adding to the saving pool. That would put downward pressure on interest rates and it would help the economy grow.

Now, a way to do that is built into the social security system. Social security is now programmed to build up substantial surpluses in the future. That money is now being borrowed by the rest of the Government, but it shouldn't be. That surplus should be allowed to be a surplus, and those funds should be used to buy back debt from the public and to get more funds out there to finance productive investment.

The Panetta bill does aim for that. It would take social security out of the budget and aim for a balance in the operating budget. The way I put it in my testimony amounts to the same thing. It says, let's run a surplus in the unified budget, including social security. That is the basic reason.

Mr. WHEAT. To amplify upon what the chairman said let me ask you about the pay-as-you-go concept.

I appreciate the need for some discipline in the budget process due to the reality that there are not unlimited funds.

Why would it not be better in the budgeting process, though, instead of having to propose either a new revenue or to demonstrate areas where you were going to cut programs in order to propose new programs, to just have one set of national priorities that are established by the Congress in one process and a different process to fund that set of national priorities. Once Congress makes a determination what it is going to cost to do everything we want to do as a government, then we would determine how we would raise the funds as opposed to trying to come up with the funds on a program by program basis.

Dr. RIVLIN. As I was saying to the chairman before, I think the Budget Act was originally designed to get into one place, those considerations. What do we want to do, and how are we going to fund it? That is what the budget committees are for. They are the only committees with the prerogative of looking at both sides at the same time.

I do think you have to look at spending and funding at the same time. Nobody could get agreement on a set of priorities on the spending side without raising the question, how much is it going to cost to do that? I think we would all have a very long list of things that we wanted the Government to do if we didn't have to worry about how the money would be raised.

So I simply think it has to be put together. There is no way to say how much is enough for defense or for child care or whatever unless you have at the same time to think what is the revenue available to fund all of these things. They are joint decisions.

Mr. **Wheat**. Thank you very much, Mr. Chairman.

Chairman **Derrick**. Thank you, Dr. Rivlin. It was nice to see you, and thank you for your excellent testimony.

Dr. **Rivlin**. Thank you.

Chairman **Derrick**. The hearing is adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

H.R. 3929, THE BUDGET PROCESS REFORM ACT OF 1990

WEDNESDAY, MAY 9, 1990

House of Representatives,
Subcommittee on the Legislative Process,
Committee on Rules,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in room H-313, the Capitol, Hon. Butler Derrick (chairman of the subcommittee) presiding.

Present: Representatives Derrick, Frost, Wheat, Gordon, Martin, and Pashayan.

Also present: Representative Beilenson.

OPENING STATEMENT OF HON. BUTLER DERRICK, CHAIRMAN OF THE SUBCOMMITTEE ON THE LEGISLATIVE PROCESS

Chairman **Derrick**. The hearing will come to order.

Members have been notified that TV cameras are present. We polled the members and understand there is no objection, so without objection, broadcast and still photographic coverage will be permitted today.

Today we continue our hearings on H.R. 3929, the Budget Process Reform Act of 1990. We will receive testimony from several distinguished Representatives and Senators, with hands-on budget experience on special interest in the budget process.

We are delighted the witnesses could join us today. We look forward to hearing their views.

We will start with the Honorable Dan Rostenkowski, chairman of the Ways and Means Committee, and we will be glad to have your statement put in the record.

STATEMENT OF HON. DAN ROSTENKOWSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Rostenkowski**. Thank you, Mr. Chairman. I think I will make my own statement because it is so informative.

Mr. Chairman, and members of the subcommittee, I would like to express my sincere appreciation for inviting me to testify on the subject of Federal budget process reform.

I think that we all agree that no amount of budget process reform will substitute for strong political leadership on deficit reduction at both ends of Pennsylvania Avenue. In my view, we need to be less focused on budget process reform and more committed to serious deficit reduction.

As you know, I presented a budget "Challenge" several weeks ago which would reduce the budget deficit by over $500 billion over the next 5 years. I don't pretend this is a perfect plan, and I welcome constructive suggestions for improvement.

I will not go into the details of my proposal except to say that both parties, as well as the President, will need to compromise if we are to succeed in reducing the deficit and our massive borrowing, in reducing our dependence on foreign investors, in restoring our country's international competitiveness, and in enhancing the standard of living of our children.

The last thing we need is a tax reduction bidding war. That would only result in a larger budget deficit, a lower national savings rate, and a shift in the burden of paying for government onto our children and grandchildren.

In the Rostenkowski Challenge, I have suggested that Gramm-Rudman be repealed because Gramm-Rudman would no longer be necessary if a bold deficit reduction plan is enacted.

Gramm-Rudman is a crutch, a collective confession of our inability to lead and our unwillingness to face up to our responsibilities. We didn't have Gramm-Rudman for the first 209 years of the Republic. It is my strong feeling that elected officials should govern the old-fashioned way by being accountable, exercising their judgment, making decisions in the national interest and honestly paying for the cost of government that their constituents demand.

Nevertheless, I am aware that others, including the administration, feel that Gramm-Rudman should be retained even if a responsible deficit reduction plan is enacted. They feel that Gramm-Rudman is necessary to protect against any inclination the Congress might have to "spend" the budgetary savings.

Although I feel that concern is overstated, I fully agree that any enacted budgetary savings and revenue increases must be dedicated to reducing the deficit and not to increased spending. I myself have proposed that the so-called "peace-dividend" be dedicated to deficit reduction, and not used for either increased spending or tax cuts.

Mr. Chairman, I am introducing legislation today to ensure that all budgetary savings and increased revenues are, in fact, used to reduce the deficit. I am prepared to work with the administration and concerned Members of Congress on Gramm-Rudman-like mechanisms to enforce a serious deficit reduction plan.

Let me emphasize that my suggestion for enforcing a real deficit reduction plan contemplates more than "bookkeeping" adjustments, but rather substantive mechanisms to actually retire a significant portion of our Federal debt.

For instance, under my "Challenge," borrowings from the public would actually be reduced because total receipts would exceed total expenditures in fiscal year 1994. Personally, I am prepared to make a commitment—a personal pledge—not to vote for any budget resolution or public debt limit increase which violates the deficit reduction plan.

We could also consider increasing the public debt limit in yearly stages consistent with enacted reduction plan. Then, if the public debt limit needs to be increased further due to additional spending and not to changes in economic assumptions, such increases should require a super-majority vote in both the House and the Senate.

I want to emphasize that I am open to other proposals to ensure that the budgetary savings are actually used to reduce the budget deficit and not otherwise spent on new programs or new tax cuts.

Mr. Chairman, I would now like to comment more fully on proposals relating to Gramm-Rudman and the budgetary treatment of the social security trust funds.

While I continue to support the concept of a unified budget, I am certain that that determination by many Members of Congress to remove social security from the Gramm-Rudman deficit calculations has reached its critical mass.

The legislation I am introducing today includes a provision to remove social security from the budget and the deficit calculations. In addition to reassuring the public that we are serious about reducing the deficit in the Government's operating budget, such an action will necessarily force us to evaluate whether other trust funds such as the medicare, airport and airway and highway trust funds should also be removed from the budget.

I feel that if social security is removed from the deficit calculations, other self-financed trust funds where dedicated revenues (not counting interest earned) comprise at least 90 percent of the trust fund's total receipts should be removed as well.

In the event social security is removed from the Gramm-Rudman calculations, I feel strongly that we must establish a point of order in the House and a super-majority point of order in the Senate against the consideration of any bill or amendment which provides for a net increase in social security benefit outlays or a net decrease in social security revenues, thereby violating trust fund neutrality, on either a 5-year or a 75-year basis.

This concept is embodied in H.R. 3505, a bill I introduced last year, which has been endorsed by all majority members of the Committee on Ways and Means, and also by most groups representing the elderly.

The same concept might be applied to other trust funds as well on a 5-year basis.

The fixed deficit targets in Gramm-Rudman should be replaced with specific deficit reduction targets of $30 billion in the first year of each budget cycle and $40 billion for years two through five in each budget cycle.

The budget process should be tightened to eliminate budget gimmicks and to change the focus from a 1-year deficit reduction process to a 5-year process. Changes in social security outlays or revenues should not count towards reaching these deficit reduction targets.

Until a balanced budget is achieved, revenues should be added to the Gramm-Rudman sequestration formula. Half of the required sequestration amount should come from increased tax revenues. Corporate and individual income tax liabilities should be increased by a uniform percentage. The other half of the required deficit reduction should be sequestered equally between defense and domestic programs using the existing sequester formula.

The rationale for the original Gramm-Rudman law was that Members favoring defense programs and those interested primarily in domestic programs would compromise on a more rational deficit reduction package. Now, however, due to our changing defense commitments in Europe, defense programs will receive large reductions and mutual interest in substantive budgetary compromise under the threat of sequestration no longer exists.

Deficit reduction should no longer be required when a balanced budget is reached. A balanced budget would be defined as a deficit of less than one percent of the gross national product (GNP). That would imply a residual deficit of approximately $60 billion.

For purposes of determining when a balanced budget is reached, the following trust funds should be excluded: social security (OASDI), medicare (HI), airport and airway trust fund, highway trust fund, hazardous substance superfund, unemployment trust funds and several other smaller trust funds.

This accounting is consistent with my earlier suggestion with respect to 90-percent financed trust funds.

Finally, Mr. Chairman, I want to emphasize my strong support for pay-as-you-go financing of new or expanded spending programs or tax cuts.

The Ways and Means Committee has a long history of budgetary prudence and responsibility, a history of which we are collectively and justifiably proud. The committee has developed its legislation on a pay-as-you-go basis for the last 9 years, long before it became fashionable elsewhere.

Consistent with my "Challenge," I strongly support pay-as-you-go financing as a necessary complement to a serious deficit reduction plan. The primary concept is that all major spending increases or revenue reductions must be paid for by an equivalent amount of spending reductions or tax increases. Otherwise, a point of order should apply in the House and a super-majority point of order should apply in the Senate.

I want to caution, however, that I have some concerns with the mechanics of implementing a pay-as-you-go system as embodied in the Russo plan, H.R. 4164. Thus, I would favor initial implementation of the pay-as-you-go plan on a trial, experimental basis for 1 or 2 years. After we gain some experience with an informal implementation, we can consider structural changes to the Congressional Budget Act.

In conclusion, Mr. Chairman, our Nation's most important domestic priority should be the enactment of a real deficit reduction plan. Let me state again that savings achieved and revenues raised in the name of deficit reduction should not be used to increase Federal spending.

I have offered what I hope are constructive recommendations in my "Rostenkowski Challenge" several weeks ago and in my testimony here today. Whether they are my ideas or someone else's is not important. What is important—what is absolutely essential—is that we develop a serious, responsible deficit reduction plan in the national interest. If Gramm-Rudman-like mechanisms are necessary to ensure that end, I have no objection to their addition to such a plan.

I strongly believe that our country needs to make investments for the future in the areas of education and health care for our children, in the infrastructure, the environment and the war on drugs. If these initiatives are true national priorities, then the Congress and the President must be willing to pay for them.

I sincerely hope that I have made a positive contribution to the debate with the Rostenkowski Challenge, and my additional proposals presented today. Nothing less is at stake than our children's future and our country's ability to compete in the global market place.

Thank you, Mr. Chairman.

Chairman Derrick. Thank you, Mr. Chairman, and I have been in the Congress 16 years. That is the most comprehensive and forthright statement I have ever heard on deficit reduction, and I thank you very much.

But I would like to change gears with you for just a moment, if I may, and ask you how are you reading the President's lips these days? He seems to be backing off his "no new taxes" pledge. What do you make of it, what do you think will come of it, and what do you think has prompted it taking into consideration that he was certainly very definite a month or two ago, and this seems to be rather sudden.

Mr. Rostenkowski. Well, Mr. Chairman, you know, some 8 weeks ago I presented what I thought was an all encompassing deficit reduction plan. At that point in time, the President made a suggestion that he was not intransigent on it, that he liked some of it, and he disliked some of it. I get a similar response from quite a few of my colleagues as well.

At that point in time, the President also said that I would like to see what the Democrats in Congress propose. Secretary Brady and I went on television to discuss what was contained in the Challenge. Both the President and Secretary Brady stated that they wanted to see what the Democrats produced in the budget process. The Budget Committee has since come forth with our program.

As I understand it, the Senate Budget Committee has adopted a program on their side. So I conclude that after having looked at what the Congress produced in the budget process, the President made a decision, a decision that I very much favor, to sit down in a summit meeting with the four congressional leaders that met with the President on Sunday. I have also come to the conclusion that—that after those deliberations—maybe we won't have to worry about reading anyone's lips anymore, but will start digging in our pocketbooks and paying for the programs that we all feel are very necessary.

I am not going to make any assumptions here. But as I understand it, the Director of OMB has been on the Hill in recent days talking to the minority. The figures that Mr. Darman has forecast with respect to the possibility of sequestration or what the deficit will really look like are in a crisis proportion. So I would conclude if I were President, to change my mind. But I don't think I would have made the statement, "Read my lips" in the first place.

Chairman Derrick. Thank you very much, Mr. Rostenkowski.

Do you think the budget process continues to serve a worthwhile purpose here in Congress?

Mr. Rostenkowski. Well, it is a frustrating process. I imagine it's even more frustrating for Members who don't serve on the

Rules Committee or the Appropriations Committee or the Ways and Means Committee.

As you know, Mr. Chairman, Jamie Whitten and I are the only two Members remaining in Congress that served on the commission that created the budget process. When we concluded our deliberations, it certainly didn't look anything like it does today. When we enacted the Budget Act, it was not our idea that we would have a 5-year window.

As you remember, Al Ullman, who was on the Ways and Means Committee was the first chairman of the Budget Committee. I don't know what we can do to replace it. I am not enthusiastic about it. I think there are some things we can do to improve it. But it is frustrating to Members that work on the budget, to find that after they have concluded their deliberations, a summit takes place that overrides what the Ways and Means, the Rules Committee, the Budget Committee, and the Appropriations Committee recommends. However, until such time as we come up with corrections to the process, and as long as the administration feels that there is a need for Gramm-Rudman and the present process, I am willing to live with it. But I do think that it deserves some in-depth review.

Chairman DERRICK. Thank you very much, Mr. Chairman.

Mr. Frost.

Mr. FROST. I would join the chairman in commending you on an excellent statement, Mr. Rostenkowski, and, of course, the Chairman and I both served on the Budget Committee for 6 years preceding this particular Congress, and Mr. Beilenson, member of the Rules Committee, now serves on the Budget Committee. So we have some experience in this area.

I was curious, and I am not—I won't take very much time. I will be brief.

Mr. Rostenkowski, at one point you talk about a super-majority when you are going—when changes other than those attributable to economic assumptions are made, when the deficit is going to go up or when the debt ceiling is going to go up, to have some sort of super-majority required to do that.

What happens in situations of national disasters? This is particularly on my mind because of what has happened in part of my own State in flooding just recently. It happened in the chairman's State of South Carolina with the hurricane not too long ago, happened in California with the earthquake. Would in fact—do I read your proposal correctly even in cases of national disaster if you were going to have increased spending to meet that need, you would have to come up with the revenues or have some authority—to do that or have some sort of super-majority to do that?

Mr. ROSTENKOWSKI. As I structured the legislation, Mr. Frost, that is true. You would need a super-majority. I honestly would not have a problem if in its wisdom the subcommittee found some language that could avoid that situation in the case of a national disaster. I favor the idea about the super-majority because I want to lay some groundwork for the administration to believe that the Congress won't raise revenues only to spend them in projects other than deficit reduction. That is the main purpose for me requiring this two-thirds votes.

Mr. FROST. Okay.

I have no other questions.

Chairman Derrick. Thank you.

Mrs. Martin.

Mrs. Martin. Yes, welcome.

Members of the House especially on the minority side are not used to asking the chairman of the Ways and Means questions. We are used to saying yes, Mr. Chairman. Considering the breadth of your statement, and we do welcome it, everyone does, I do have a few questions.

One, we will start with kind of an easy one. There seems to me, as someone who serves on the Rules Committee an inordinate belief in points of order, I must tell you we waive them, depending on when the order comes from where. There already exists lots of points of order. If we followed them we might not be in the trouble we are in today. I mean, that is one of those process things that doesn't matter headlines but we get rid of—points of order just whizzes through here.

Why do you think under your suggestion we would suddenly, the human—we change and follow your points of order?

We already have them.

Mr. Rostenkowski. I don't know that I am answering your question, but we have something that is broke here and we better fix it. I don't know how much faith the minority has in the budget process. From what I gather, they are not too enthusiastic about it. So I am a firm believer, Mrs. Martin, in the fact "if it ain't broke, don't fix it." But if it is broken, you better do something about it, because this lack of confidence is not just evident in the Congress, it is out there with the American people. And I just think we have to do something about that.

Mrs. Martin. By the way, you and I have a total agreement on here is a problem in defining. I am suggesting that what seems to me, even with the nobleness of your expression and the same things that you are saying would fix it are what we supposedly already have to fix it and they haven't worked. That is, points of order I am afraid do not impress me the way they did. I actually thought they meant something awhile ago, too.

Suddenly, I am a little confused, okay. In your statement, you emphatically state any enacted, and I am quoting you now, budgetary savings and tax increases must be dedicated to reducing the deficit and not to increase spending.

Then later on you go on, although saying you have some differences with the Russo bill, you endorse the so-called pay-as-you-go, requiring offsetting spending cuts or tax increases with new spending initiatives.

I am not sure how you can do both. If all new—according to you—all new tax increases would go to balancing a budget, how could they go to new spending initiatives?

Mr. Rostenkowski. Actually what I am suggesting here is that until such time as you have met the requirements of deficit reduction, at that point in time you want to initiate other programs, you have to find money for it. Initially, however, that money is directed toward a deficit reduction program.

Mrs. MARTIN. So there would be, under your plan, as you are suggesting, there would be no increase in any spending until we finally achieve a balanced budget?

Mr. ROSTENKOWSKI. Well, there could.

Mrs. MARTIN. Unless there was a super-majority vote to increase the taxes?

Mr. ROSTENKOWSKI. Right.

Mrs. MARTIN. This is where I don't—if there is any increase in taxes, it would go to deficit reduction, unless there was a super-majority, and then the super-majority could do it for a new program?

Mr. ROSTENKOWSKI. That is something that I have discussed with many Members on your side of the aisle. Because of the lack of confidence of the minority as well as the administration, as to whether or not when revenues are raised and we have an agreement; that a bidding war to spend the revenues takes place.

What I want to do is to try and avoid the bidding war.

Mrs. MARTIN. I guess we are looking at it sort of from—you know, I think everybody and not just insiders into the system, but outsiders viewing with distrust, lots of things.

Some of us remember when there was another promise that for every increased dollar in taxes we would have a $3 decrease or savings. I mean, I seem to recall that, and it is my recollection that, for every dollar that we increased, which we did in taxes, we got 52 cents, so I think a lot of the distrust you hear isn't quite at the same issue you are talking about, it is about the fact there is no doubt in my mind we can get the taxes. There is a lot of doubt in my mind we don't get any savings.

Mr. ROSTENKOWSKI. I don't want you to understand we are talking about a super-majority to increase taxes. We don't need that. In order to increase taxes, it would just face a simple majority.

Mrs. MARTIN. Let me try it again.

If, according to your statement, I am trying to understand your thinking, it takes an ordinary majority to raise taxes, and either all that money goes to deficit reduction, which is what I thought you were saying in the beginning of it, but then at the end of it you said if you want new spending, you can do it by taxes, too.

You can't do the same—I mean unless you have got a way to figure out there will be no deficit in 1 year. I mean you would be talking about the kind of taxes I don't even think Democrats are talking about.

Mr. ROSTENKOWSKI. What I am trying to say is this, if there is increased spending.

Mrs. MARTIN. Yeah.

Mr. ROSTENKOWSKI. Without an offset. In other words, if you want to put something in, you have to take something out. Take something out, put something in. If that situation arises, you would need a two-thirds majority. So you can spend if you have offsetting revenue, all that would face is a simple majority. But if you want to spend money without an offset, without comparable revenues being raised, you would need a two-thirds majority.

Mrs. MARTIN. Okay. So you certainly with new taxes can't guarantee it would go to the deficit—you just said that—even though in the beginning that might be your intention. It certainly—I have heard—you know we traveled a flight together. I understand your strong commitments to this. You might believe that, but what you are now saying actually is, now taxes would just be new spending, if enough of us voted that way.

Mr. ROSTENKOWSKI. If you enact this plan, at the time that you initiate another program—let's take national health insurance—and if this plan is in place, you would be required to raise offsetting revenues.

Mrs. MARTIN. But if—stay with that a second. If we were $60 billion in deficit, you still want it or this person, this unknown Congress Representative, congressional Representative wants national health insurance, $30 billion, $30 billion, but you are $60 billion in deficit. As I read the first part of your statement, any $30 billion you raised would first go to that—to offsetting the $60 billion before you could even start your new program of $30 billion.

You are saying no, that it just sits there.

Mr. ROSTENKOWSKI. But Mrs. Martin, you must satisfy deficit reduction first. That is what has to be satisfied first.

Mrs. MARTIN. So the $30 billion——

Mr. ROSTENKOWSKI. Any moneys that are raised must be directed toward deficit reduction. You have to have offsetting revenues if you plan to spend it.

Mrs. MARTIN. That doesn't, therefore, have—then there is no guarantee you do anything about deficits. It may guarantee you will not increase them via new programs, but that does nothing to guarantee you can take care of what you have, even now or the growth in old programs.

Mr. ROSTENKOWSKI. I don't understand.

Mr. PASHAYAN. Will you yield?

Mrs. MARTIN. The matter isn't working.

Mr. PASHAYAN. If I can ask one question

I think I understand what Mrs. Martin is asking. Let me attempt to put it in other words. If it is another question, I will wait for my time.

Just using her figures, suppose there is a $60 billion deficit and you wish to install a $30 billion national health insurance plan. Her question is, do you have to raise $90 billion, the first $60 billion of which goes to retire the deficit and then the $30 billion of which would be——

Mr. ROSTENKOWSKI. The first obligation under the program is deficit reduction. If you have concluded and satisfied the deficit reduction requirement, and you want to initiate another program without offsetting revenues, you have to have a two-thirds majority vote.

If you have offsetting revenues, you would only need a simple majority.

Mrs. MARTIN. I thank you. I still—as well-meaning, and I think it is, and certainly as the Chairman aptly states, and addition to the dialogue about a problem we all wish to solve, it still means it is a step forward. It might not be adding to the deficit, but it still has no guarantee for the American people that any tax money would be going to the deficit.

Chairman DERRICK. If I might——

Mrs. MARTIN. Yes.

Chairman **Derrick**. What the Chairman, I think, is saying, all the first moneys go to raising the deficit. When you have met that requirement under his legislation, then and only then can you consider anything else.

Mrs. **Martin**. I don't think that is what he just said.

Chairman **Derrick**. He just wagged his head and said that is what he said.

Mrs. **Martin**. Then that first $30 billion you raised for the health insurance would have to go to the deficit if you have one.

Mr. **Rostenkowski**. What you are satisfying first is deficit reduction. After that, any program that you initiate without revenues, must be passed by a two-thirds majority.

Mrs. **Martin**. So no new programs, none, until you got the deficit to zero.

Mr. **Rostenkowski**. Until that certain amount of revenue went toward deficit reduction.

Mr. **Pashayan**. Yield?

Mrs. **Martin**. Surely.

Chairman **Derrick**. No new moneys until you have met your responsibilities.

Mr. **Rostenkowski**. In deficit reduction.

Mr. **Pashayan**. Unless you have a two-thirds vote.

Mr. **Rostenkowski**. Unless you have a two-thirds vote. At that point in time, you won't need offsetting revenues. But I don't think you would get that kind of vote.

Mr. **Pashayan**. Are the offsetting revenues required to the two-thirds rule, too?

Chairman **Derrick**. Mr. Wheat.

Mr. **Wheat**. Thank you, Mr. Chairman.

Before I, once again, rejoin this debate and I think I would like to get back on the same subject, let me join what appears to be a bipartisan sentiment for congratulating you for putting forth a comprehensive plan that would approach deficit reduction and budget process and realistic process we can do to approach real problems we have in the country.

I wish there were comprehensive programs coming from other branches of government. Also, I think the approach you put forward is a vehicle we can all work with.

I would like to agree with Mrs. Martin in one respect, as much as no Congress can bind the hands of any future Congress, I think with your plan, neither than we had with Gramm-Rudman, we have no assurance all revenue would go to reduce the deficit. If this Congress makes a law, the next Congress can adjust it, have gimmicks, assuming any of us here. That is why I particularly appreciate your statement. It is time we got away from budget gimmicks and Congress do its job of legislating.

I want to ask you some specific questions. One of the things you talk about is in regards to sequestration. If sequestration becomes necessary in the future and you have this proposal, sequestration would be, one, have increased taxes as opposed to the current situation where it is all cut in spending.

How would you decide to levy new taxes under sequestration? How would they be applied?

Mr. ROSTENKOWSKI. A 1 percent surtax on individuals and corporations.

Mr. WHEAT. One percent surtax on individuals across the board?

Mr. ROSTENKOWSKI. Actually, you have a scale in the percentage of surtax. It would be whatever is necessary in order to satisfy the sequestration requirement.

Mr. WHEAT. But it would be the individual income tax that would——

Mr. ROSTENKOWSKI. And corporations.

Mr. WHEAT. And corporate income tax.

Another point that you make is that you support the unified budget or the allegedly, the unified budget that we have today, and I think we are all in support of it, yet you go on to suggest—and I want to make it very clear, I agree with you, that social security should be off the budget, but about these other budget trust funds, if you move past social security, we have the highway trust fund, the airport trust fund, the unemployment trust fund. Why take all those off budget?

Mr. ROSTENKOWSKI. Mr. Wheat, I don't support the argument that one should be on-budget and the other should be off budget. If you are going to expose the deficit for what it really is, then I think those are committed revenues for a specific purpose.

If you take social security off, then I would suggest that you have no argument in keeping the others on budget. So, in order to be consistent in that argument, and in order to be serious about deficit reduction, you should take them all off.

Mr. WHEAT. In social security, we have a surplus that is not currently needed to meet the obligations of social security, but in the others, in airport and highway, in particular, we have a surplus but we have people clamoring all across the country to spend the surplus.

I assume the day these trust funds come off budget, the expenditures actually will go up and we start spending this money.

Mr. ROSTENKOWSKI. We have had our own debates in the House of Representatives between committees of jurisdiction whether or not we should appropriate money and spend it. It seems as though the territory is violated and everybody starts screaming about not appropriating money. I think that is wrong. I think it is terrible that we have an administration that is using surpluses in some of these trust funds to reduce the size of the deficit.

We are all subject to the same transportation modes. The fact that there is a surplus like that in the airport trust fund is to me, ridiculous.

As you well remember, in the Ways and Means Committee, airport taxes were going to be reduced unless the revenues in the airport trust fund were spent. We suspended the so-called "trigger."

If you dedicate monies for particular areas, I think those monies should be spent with some prudence. My argument here, Mr. Wheat, is if you take one trust fund off-budget, and I see no problem with that, I prefer that you take them all off.

The difference with respect to taxing social security off-budget, and the Moynihan proposal is that Moynihan proposes to reduce the taxes. He does not replace that revenue. To me, as chairman of the Committee of Ways and Means—the committee that has to raise those revenues—that is quite offensive.

Mr. WHEAT. I understand how the Moynihan proposal would put a great deal additional pressure on the rest of the budget, but so would taking off these other trust funds.

Do you have any idea offhand how much additional funds would be necessary to make up for taking these trust funds off-budget?

Mr. ROSTENKOWSKI. I am told all the trust funds are about $150 billion, and half of that is social security.

Mr. WHEAT. Other $75 billion or two more years under your plan before we could get to other kinds of needs in the country, because we would have to do deficit reduction first. I agree very strongly we need to have a comprehensive package.

I hope you will look at adjusting this slightly. I see some problem. We make a decision first the deficit is a major problem in this country, and it is, and it would be addressed under your proposal.

We also understand your proposal to address some of our airport and highway plans, because the trust funds are there available to use, but other major problems, like housing, education, the national health care plan, environmental protection, the war on drugs, all of these would have to wait for deficit reduction.

And we really genuinely appreciate the philosophy you express that legislators ought to set priorities, and we as a country, ought to make a decision to pay for those, and if somehow you could design into your proposal something that would allow us to look at these needs on a par with the needs that are getting preferable treatment, I think it would make it generally a more acceptable plan.

Mr. ROSTENKOWSKI. Thank you, Mr. Wheat.

Chairman DERRICK. Thank you, Mr. Wheat.

Mr. Pashayan.

Mr. PASHAYAN. Thank you, Mr. Chairman, I shall try to be brief.

First of all, Mr. Chairman, let me say that I appreciate your taking all your many years, your many decades here, especially in one particular very sensitive function of the Federal Government, which is raising money, and trying to reach beyond that and to lay down a comprehensive plan here.

Let me also say that, as I observed, that none of what you have to suggest entails a constitutional amendment. I am correct in that, am I not?

Mr. ROSTENKOWSKI. That is right.

Mr. PASHAYAN. I share that philosophy with you. I have always been very dubious that it is possible to fashion a constitutional amendment in fact that would bind a majority of Congress against their will, and I certainly share your philosophy that this problem is going to be solved only by a political well to do so, and I just wanted to say that.

In respect of the political will now—and I am asking in a general way—perhaps the same question my colleague was asking—Mrs. Martin. It has been my observation, as a matter of history, and maybe my relatively short time here, that when there is extra money coming in, this body has found it irresistible to find new ways to spend it. Now, as I understand the question of Mrs. Martin, and what you were saying, that the two-thirds requirement can be set aside by a waiver of a point of order, and that comes down to a majority decision on this committee, if I am not mistaken.

But in a broad sense, do you think, as a matter of political will, this body has reached that point where we have the political will to attack the problem in the way that you are suggesting? In other words, we can still go back to a simple majority. It has been watered down by your plan because you have put up this two-thirds barrier, but it is still reachable at some point in the overall process by the vote of a simple majority.

I just wish you would talk about that in general terms.

Mr. ROSTENKOWSKI. Well, Mr. Pashayan, I doubt whether or not we could get the Senate to agree to what I am suggesting. That is hard to forecast. But because of the visibility and the proposal that I have laid out for some 8 or 10 weeks, I am firmly convinced that the American people are way ahead of us.

I think the people will accept unique taxes, if we can prove to the people that we will spend their money prudently, that we will do our utmost to fight waste and the fraud, if we can convince them that they don't want to become a second-rate nation. I have made over 40 speeches. In the question and answer period the response usually is: "I will go along with this, but you guys in Washington throw that money around like it is confetti."

Well, if we make a decision to initiate a new program, or if we want to spend money, we will need a two-thirds majority. Then, we'll find out whether we are serious about lowering the deficit.

As you well know, our problem here is, that we spend money on social security. We spend money on defense. We spend money on the interest on the national debt; and we don't get a damn thing for that.

I think the American people are educated in that area. I think they are ready for us to take some positive action. I am distraught that so much politics is entering into the arena—not just on our side, Mr. Pashayan. The American people want us to govern. I think if we can work formulas in to help us, we should do that.

Now, I view the challenge of Gramm-Rudman a little differently than a lot of people. We enacted that law because we felt that sequestration would impose discipline—that we would do something to avoid sequestration. If we don't, the triggering mechanism goes in. Then, of course, we all sit back and say: "Oh my gosh, we will be viewed as not being able to govern." Then why did we pass the law in the first place?

I am not afraid of sequestration. But I will tell you, you know that this sequestration that we are on the verge of having will be so devastating, not only to the administration, but to all of us in Congress. So we have a problem here that we better start fixing on a bipartisan basis. And that is what I am trying to do.

Mr. PASHAYAN. Does your plan contemplate, and if it doesn't contemplate—would you consider—once again the idea of your plan is to have the two-thirds as a mechanism to control spending, and if we link the two-thirds in place, I agree that will be a violation of mechanism. That makes sense. But the idea of raising taxes to take that extra revenue to retire the deficit, is it a part of your plan that when we bring the deficit down to zero that there is a tax reduction?

Mr. ROSTENKOWSKI. That would be the will of the Congress. That is perfectly all right with me.

Mr. PASHAYAN. Would you consider putting that sort of automatic tax reduction into your package at such time as we reach a zero deficit, there will be an offsetting tax reduction? You see, that might be something you might want to consider, because that would be a real carrot out there.

Mr. ROSTENKOWSKI. Let me just share with you an experience of some 20 years.

Mr. PASHAYAN. Okay.

Mr. ROSTENKOWSKI. When we had the automatic increase in revenues through bracket creep because we didn't have indexing, we were the most popular people in the world. We never raised taxes. I stayed on the Ways and Means almost 20 years, and never raised a dime in taxes, while States, cities and counties did. But I have been on the committee for 20 years and never raised taxes a dime. Wouldn't that be beautiful? I am a politician too. I am not saying that my proposals are written in Illinois limestone.

Mr. PASHAYAN. California granite.

Mr. ROSTENKOWSKI. You enact a program similar to this and the day that we have a balance budget and you want to reduce taxes, I will be there right along side you.

Mr. PASHAYAN. Mr. Chairman, I was hoping you would put in a provision to make it an automatic offsetting.

Mr. ROSTENKOWSKI. It is a long way in the future.

Mr. PASHAYAN. It might be a nice carrot out there.

Thank you.

Chairman DERRICK. Thank you, Mr. Pashayan.

Mr. Gordon.

Mr. GORDON. Mr. Chairman, if you can remember back over all those decades you have been here, you probably remember being on the end of the bench and not wanting to keep a witness waiting any longer, but I do want to take just a moment to say that you can't find the answers to tough questions until you start talking about some solutions, and I think it was your courage and boldness that put some solutions on the table. As you said, we may not agree with them completely, but it started the process and I thank you for that.

One quick question. There is legitimate growth of inflation in good programs, whether it is scholarships or whatever, each year. I assume—are those sort of things taken care of by the natural growth in revenues that will be coming now?

Mr. ROSTENKOWSKI. They are automatically adjusted, Mr. Gordon.

Mr. GORDON. Thank you.

Chairman DERRICK. Thank you very much, Mr. Rostenkowski.

Mr. ROSTENKOWSKI. It has been a pleasure, Mr. Chairman. I enjoyed it.

Chairman DERRICK. We will now hear from Pete Domenici, former chairman of the Senate Budget Committee, and a gentleman I have been working with for a number of years when I was on this committee.

Welcome. We know what you are going to have to say is going to mean a great deal to us. We will put your full statement in the record.

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator DOMENICI. I appreciate that, Mr. Chairman, members of the committee.

Mr. Chairman, we have been shipmates in this war. The budget processes we have are difficult and sometimes too erroneous. And, sometimes even with the best of intentions, they don't work.

I would say that ultimately, deficit reduction is going to be a matter of will, not a matter of processes. But I am firmly convinced that we have to put the best processes in place and get the deficit under control.

I would like to share three things with you that I didn't plan to talk about. I am rather intrigued that we have all been talking about trust funds and their impact on the Federal budget, the unified budget, and hardly anyone has referred to an official document of the U.S. Congress dated February 26, 1990 written by the CRS, a neutral, somewhat academic body. I think this should be of interest to you as you look at the explanations of what happens to the trust funds in the unified budget.

I understand there is a very, very big commitment around here to get social security, in a sense, out of the unified budget. Both those of you who have been inquiring and Chairman Rostenkowski, who is an advocate of the unified budget, nonetheless suggest that the time has come regarding social security.

It is rather interesting to note that over the last 20 years, according to this study, the trust funds have not had a positive impact on the budget; in other words, their surpluses have not reduced the deficit.

As a matter of fact, the cumulative effect is that under the current accounting system, even in 1989, the cumulative trust funds have increased the deficits, not reduced them.

If you are going to look at trust funds comprehensively vis-a-vis the national budget, and look with some seriousness at the value of a unified budget, this document may be relevant.

Mrs. MARTIN. I ask unanimous consent that that document be included in the record.

Chairman DERRICK. Without objection, it will be included.

Senator DOMENICI. I also have two other articles that I have written which I hope we can make a part of the record.

Some time ago, January 13, with a fellow Senator, Senator Johnston of Louisiana, I wrote an article called, "How to Fix the Budget Process;" and in this I was really talking about the budget process, not necessarily all the other processes of Congress.

I think it is a very succinct statement of what Senator Johnston, myself and three other Senators outlining what we think Congress ought to do.

Chairman DERRICK. Without objection, that will be made a part of the record.

Senator **Domenici**. Might I join in the accolades for the distinguished Chairman of the Ways and Means Committee's so-called Rostenkowski game plan for fiscal responsibility and a budget.

I submit to you that we are going to have to do more in this economic summit with the President and other Members certainly is more than drafting a budget. Rather, we must go beyond that.

And I submit to you that we are going to have to recommend changes in our processes and procedures which will guarantee results for those who vote for the agreement, if there is an agreement. For the American people it must be a guarantee because they have to live by the agreement which should last, not only for one year but for a sustained period of time.

So I think we will have to have budget reform at this economic summit table, and I submit to you my notion of what we ought to do to make this summit the last summit of this decade.

I contend that we have to do much more than merely arrive at a few reductions here and there and perhaps put revenues on the table. I submit we have to correct things so that the American people can be assured that we, in Congress, are going to live within the fiscal umbrella. If we can do this, the response of American markets and world markets may be positive.

Having said that, I will tell you what I will not do. I am not going to talk about my preferred budget with numbers. Rather, I am here to talk about the budget process and five or six changes that I think we ought to make.

Since the President's announcement with our leaders on Sunday which called for a budget summit, there has been great speculation about what is on the table and what is not. Let me say there has been a lot of talk about whether taxes are on the table or not.

I believe we are missing something. Budget process reforms are also on the table, and it is your job to propose them. If you are serious about making changes, I hope that the summitteers will be in touch with you week by week for your recommendations, because I believe the process must be changed in a dramatic way if we are to achieve the summit's long-term budget objective.

I don't believe we are going to get a summit without very significant process reform. What has been wrong with the budget process is our own inability to meet the goals in past budget agreements.

For example, what is the missing ingredient that always forces you to a summit? I think it is plain and simple as contained in the prior agreements—we have to bring the executive branch into the budget process.

We made a mistake. The Presidents sent us their budgets; we throw them away. A President's budget has never been adopted as it was submitted to Congress, only parts of that budget. We then enter into serious times with tough problems of our own, but the President isn't part of the solution. Summits them ensue.

Chairman **Derrick**. Senator, I have been advised there is a 5-minute vote on the Senate floor.

Senator **Domenici**. I will be finished in 2 or 3 minutes.

Chairman **Derrick**. Can you come back for questions?

Senator **Domenici**. We are in conference on the appropriation supplemental, but I will try.

How long will you be here?

Chairman **Derrick**. I expect another hour.

Senator **Domenici**. Three points: First, I think, ultimately, the budget resolution has to become a joint resolution signed by the President.

Second, we have to eliminate all the numerous functions of the budget that are not relevant and turn the budget into several major super functions.

I think you should take no more than four super functions: defense, foreign assistance, non-defense discretionary, and entitlements which will be binding as they walk their way through the process. Debate on those large chunks of government would be totally relevant, because these levels would establish binding limits for these catagories.

Let me suggest that we have got to decide how to account for the trust funds appropriately.

Credit programs don't fit neatly into our cash-based Federal accounting structure. You all know that. We have to find a way to reform the credit programs, make them fit into a budget process so they are meaningful.

Ultimately we will not have multi-year success without something like Gramm-Rudman mandatory targets, followed by a sequester. I hope there is no real serious contention that we can fix this budget once and for all with real reform and then trust the system, without a multi-year Gramm-Rudman type ceiling of one sort or another.

I have not had a chance to review Chairman Rostenkowski's annual incremental deficit reduction versus fixed deficit targets. But I would suggest that if you really can get the annual reductions of $30 billion or $40 billion each year, there may not be much difference.

If you don't, you get a sequester. But don't forget we are all having trouble determining the exact size of the deficit, when we should begin the budget process, and what we should use as a base line.

We are all speculating on the economics, therefore we don't know what these numbers will look like in 6 months, which makes it very difficult.

I would conclude that reform is not only a good subject for you, but I think it is an urgent subject. I don't think we can get an economic summit conference of any significance without major reform in these processes.

I have outlined a few of them. There are many more included in my written remarks, and I will be glad to return after the vote and we will try to communicate with you so we won't inconvenience others.

[Senator Domenici's prepared statement, with attachments, follow:]

Statement of
Senator Pete V. Domenici
Hearing of the
House Rules Subcommittee on Legislative Process
to Reform the Federal Budget Process
May 9, 1990

Mr. Chairman and distinguished members of the subcommittee, thank you for allowing me to share my views on proposals to reform the federal budget process.

Clearly, the past few years have demonstrated the need for some obvious changes in our budget process.

- o First, we must incorporate the President into the development of a budget resolution.
- o Second, we have negotiated the past three budgets and this year's budget using broad categories, such as defense, discretionary, entitlements, and revenues. I think it is time we wrote our budget resolutions by these categories.
- o Finally, we need to reform the process in order to adopt multi-year, enforceable budgets.

Mr. Chairman, I would like to focus on my own budget reform legislation, as well as other budget reform proposals, and then make a few closing comments on the distortion of our budget through efforts to legislate the budgetary treatment of individual programs.

S.391: Domenici-Johnston Legislation

As I stated at the onset, our recent experiences demonstrate some needed changes. The bill Senator Johnston and I introduced at the beginning of this Congress incorporates these changes. Our legislation also would strengthen enforcement mechanisms and streamline the process.

First, the Domenici-Johnston bill would replace the two budget committees with one joint leadership committee and require the President's approval of the budget resolution, which would be in the form of a joint resolution. With the Republican loss of the Senate in 1986 and the subsequent clear split between a Democratic Congress and a Republican Administration, Congress has been unable to produce and implement a budget resolution on its own. For each of the past three budgets, implementable budgets have only been adopted after a budget summit with the Administration.

Second, S. 391 would replace current budget functions with three major categories – defense, international affairs, and domestic spending, split between discretionary and mandatory spending, plus receipts.

Once again, for the past three budgets, we have negotiated and implemented these budgets based on broad categories and not the individual functions. Both the House-passed and Senate-reported budget resolutions were developed in this fashion.

Third, there is universal agreement about the problems with the one-year focus of our current budget process. The Domenici-Johnston bill would establish a two-year budget resolution, but would retain the annual appropriations process. In addition, it would extend the scope and enforcement of the budget beyond just the first year. Besides a binding two-year budget resolution, S. 391 also would strengthen and expand points of order to cover the out-years.

There are other important features to the Domenici-Johnston bill that would streamline the process. If Congress did not meet its deadlines for completion of a budget resolution and enactment of appropriations bills, the bill would provide for an automatic budget resolution and an automatic continuing resolution.

Other Budget Process Reform Legislation

Over 100 pieces of legislation have been introduced to reform the budget process, addressing almost every conceivable aspect of the budget process. I want to touch on some of the more prominent proposals.

There is a rising call for the repeal of Gramm-Rudman-Hollings. I oppose repeal of Gramm-Rudman-Hollings sequester. At a time when we are struggling with large deficits and the Congress is coming under attack for our inability to address this problem, I just cannot believe the American people are going to support the removal of the one measure that forces some discipline in the process -- the sequester process.

Besides the proposal to repeal Gramm-Rudman-Hollings, a number of House proposals claim to adopt a new "Pay-as-You-Go" approach. I would argue that Gramm-Rudman-Hollings already requires us to "Pay" $36 billion a year in deficit reduction and adopts a "Pay-as-You-Go" approach for additional spending by requiring that it be deficit neutral.

When many long for a simpler budget process, I fear some of these budget reform proposals may further complicate our process, and may weaken, instead of strengthening, our budget process.

The Distortion of our Budget

Mr. Chairman, I want to conclude by expressing my concern about how we are distorting our budgetary system by legislating the accounting treatment of our federal books.

In 1967, a distinguished bi-partisan panel of 16 experts, known as the President's Commission on Budget Concepts, unanimously endorsed a recommendation to establish a unified budget. This recommendation led to a greatly simplified presentation of the federal budget and has served as a foundation for our budgeting practices for the past two decades.

This budget structure is being picked apart by individual proposals to change the budgetary treatment of certain programs. We increasingly make decisions in isolation on the accounting and budgetary treatment of federal programs. In addition, we seem to make federal accounting decisions as a means of showing support for a particular program or on the basis of meeting deficit targets.

In addition to individual proposals to take programs off-budget, there are a number of proposals to make broad changes in the presentation of the budget, including a capital budget, reform of the budgetary treatment of credit, and a better accounting of unfunded liabilities.

I think it is time to reinstate the President's Commission on Budget Concepts to study these issues and provide the President and Congress with a new set of recommendations.

90-106 EPW

CRS Report for Congress

Trust Funds and The Federal Deficit

David Koitz
Specialist in Social Legislation
Gene Falk
Analyst in Social Legislation
Education and Public Welfare Division
Philip Winters
Analyst in Government Finance
Economics Division

February 26, 1990

CRS

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TRUST FUND PROGRAMS AND THE FEDERAL DEFICIT

SUMMARY

The treatment of trust fund programs in the Federal budget is complicated and confusing. As a result, the impact of these programs on the financial condition of the Government is often misunderstood. Perhaps the biggest misconception today is that these programs are offsetting the Federal deficit by $124 billion and thereby masking the true size of the deficit. Although attention has been drawn to the large social security surpluses, trust fund programs overall actually have been running cash deficits.

This aggregate cash deficit is not at first visible. Official budget documents show that overall income credited to Federal trust funds in FY 1989 exceeded the spending posted against them by $124 billion--an apparent surplus. However, what is commonly called trust fund income is not just the amount of receipts from the public generated by these programs. Trust funds also receive credits from the Treasury, what might be called *paper income*. It can be misleading to treat this *paper income* like cash when assessing the Federal deficit, which is the gap between total cash income and total expenditures in any given year. When only receipts from the public for trust fund programs--cash income--are compared to Federal spending for them, a deficit emerges; spending exceeded receipts by $18 billion.

Moreover, this is not an aberration. On the whole, trust fund programs ran deficits in their cash transactions with the public in 19 of the last 21 years. Even social security went through a long period when its expenditures exceeded its revenues. And even social security receives paper credits that make its current surpluses appear larger.

Because the official or traditional approach to accounting for Federal trust funds shows them to be running surpluses, the blame for the Federal deficit frequently is placed on the rest of the Government. Thus, all the Government's borrowing is usually attributed to its non-trust fund activities, and the interest expense or debt service is generally considered part of this category. However, because trust funds have regularly run operating or cash-flow deficits, they, too, can be considered responsible for the Government's need to borrow--i.e., for increasing the debt and the resulting interest expense. If interest expense were not included in the "rest of the Government" category of the budget, this category would show a *surplus*. The point is that no one program or sector of the Government is responsible for deficits and the resulting buildup of Federal debt. The Government borrows as it needs to, for whatever obligations it has to meet.

Trust fund programs are a major part of what the Government does. In FY 1989 they generated 39 percent--some $386 billion--of the Government's tax revenues and were responsible for 35 percent--$403 billion--of its spending. If deficit reduction efforts are based on the erroneous assumption that trust funds overall are *generating actual cash surpluses* for the Government, the result may be to distort the process by which Congress determines fiscal priorities--what Congress wants to spend money on and how it will raise the resources to do so.

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TRUST FUND PROGRAMS AND THE FEDERAL DEFICIT

OVERVIEW

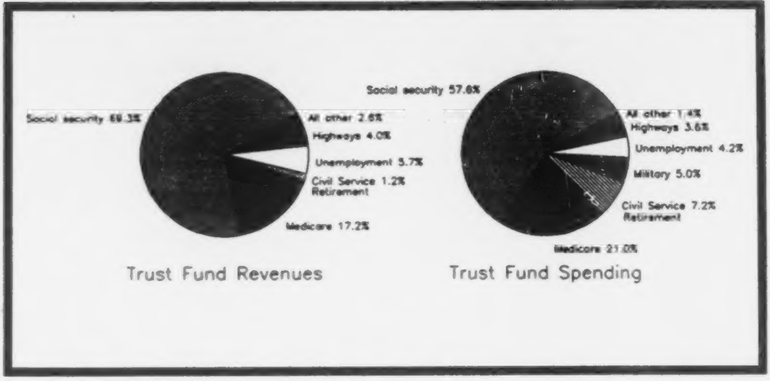
Trust fund programs have received a great deal of attention in recent discussions about the Federal budget and the budget deficit. The Federal Government, like most governments, accounts for a variety of its activities through "trust funds." Trust funds serve useful purposes in budgeting and in the allocation of Federal spending authority. However, the "budgeting" and "accounting" features of trust funds are often confused with their impact on fiscal policy.

Fiscal policy concerns the Federal Government's transactions with the public: how much the Government spends and raises in the economy through tax receipts and borrowing. The effect of trust fund programs on the Federal deficit is simply put: it is how these programs affect the Federal Government's total revenues, spending and borrowing. This can be analyzed as separate from how the Government keeps its books. This paper concerns itself with how trust funds affect fiscal policy.

In a 1988 report, the General Accounting Office (GAO) identified 167 Federal trust fund programs. However, while many in number, the bulk of their spending and revenues is concentrated among a few. In FY 1989, the 8 largest ones accounted for 97 percent of all revenues and 99 percent of all spending caused by trust fund programs. Most of the big funds (in terms of revenues and spending) are for retirement- or pension-type programs, with the two social security programs--Old Age and Survivors Insurance (OASI) and Disability Insurance (DI)--accounting for 69 percent of all revenues and 58 percent of all spending caused by trust fund programs. The next seven largest include two for medicare--Hospital Insurance (HI) and Supplementary Medical Insurance (SMI)--civil service retirement, military retirement, unemployment insurance, and the highway fund.

In FY 1989, trust fund programs collectively accounted for 35 percent of all Federal spending and 39 percent of all Federal receipts (aside from borrowing). Official budget documents show that in the aggregate their income exceeded their outgo by $124 billion. Including this apparent surplus, the Government ran a deficit overall of $152 billion. Consequently, many observers state that trust fund surpluses mask the "true" size of the deficit, which they would put at $276 billion (the official unified deficit of $152 billion plus the trust fund "surpluses" of $124 billion).

CHART 1. The Largest Federal Trust Fund Programs, FY 1989



The perception that trust fund programs produce surplus cash for the Government is inaccurate, at least in the aggregate. In FY 1989 spending for them actually exceeded the receipts they generated from the public by $18 billion. The confusion arises in part from a misunderstanding of what trust fund income is. While specific taxes and premiums are often levied on segments of the population to help cover a trust fund program's expenditures, trust funds also "receive income" from the Government--i.e., "credit" from one Government account to another--or what in essence is *paper income*. No economic resources are moved, no actual money collected. In fact, in FY 1989, some 28 percent, or $147 billion of the aggregate "income" received by Federal trust funds, consisted of these Government "payments."

Also contributing to the confusion is the perception that Federal trust funds are independent financial entities, and that the taxes and premiums paid by the public to help finance their spending are deposited in them. The money actually goes into and out of the U.S. Treasury, not the trust funds. The trust funds are special accounts maintained by the Treasury Department. Their "income" and "outgo" are ledger entries. Usually "income" is recorded by posting Federal securities to them. "Outgo" is recorded by deleting securities from them. Typically, the securities are what are called *special issues*. They are non-marketable securities, meaning that they cannot be sold to the public.[1] Although less frequent, there also are times when the trust funds simply receive "credits" for cash taken in by the Treasury or for other reasons, i.e., no *special issue* or other security is actually recorded. The point is that the trust funds themselves do not hold money or other tangible assets.

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[1] The Government could convert them into new marketable securities that it could then sell, but that is tantamount to the Government simply borrowing the money to pay the benefits, as it might borrow to cover any other form of spending it makes.

What the trust fund securities, along with any other "credits" to the fund, do is represent "spending authority" for the programs involved. As long as there is a balance posted to a trust fund account, the Treasury Department has authority (that is either permanent in the law or periodically-renewed by Congress) to continue to pay that program's bills.[2] But the money itself--the resources needed to make actual payments--comes from the receipts and public borrowing of the Government as a whole, through the U.S. Treasury.

In some instances, trust fund balances are based largely on how much revenues a program generates from the public (e.g., social security). As the revenues are received by the Treasury, the trust funds are credited with securities. Other times the balances are based only in small part on such revenues (e.g., Federal Civil Service Retirement). The revenues cause new securities to be posted to the trust fund account, but even larger postings are made to reflect Government "payments." Still other times, the balances are based totally on Government "payments" (e.g., military retirement); the entire amount is *paper income*.

Thus, while the concept of trust funds and dedicated receipts connotes separate pots of money, the Federal Government really operates as a single financial entity. Revenues generated by trust fund programs are not handled separately, invested separately, or managed separately. Their operations are only separated from other accounts as bookkeeping entities. When money reaches the Treasury, it is commingled with other receipts, and the Treasury Department, after properly crediting the various accounts, uses whatever funds are available to pay its bills. Hence, the existence of a "trust fund" in the Treasury does not detach the program from the financial operations of the Government.

People sometimes argue that when a trust fund shows surplus income, this money is loaned to the Government, and the loan represents money the Government would otherwise have had to borrow from financial markets to cover other spending. In effect, the trust fund is presumed to have saved the Government from borrowing more from financial markets and from the interest expense such borrowing engenders.

In the case of some trust fund programs--in particular, civil service retirement, military retirement and the SMI portion of medicare--this is incorrect. Their receipts from the public are smaller than the expenditures they cause. But even when a trust fund program does run a cash surplus, as is the case with social security today, to conclude that these funds provide the Government with a substitute form of borrowing is speculative. There is no way of knowing whether over time a surplus leads to a reduction in Government borrowing from the public or whether it permits the Government to spend more or tax less.

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[2] In the case of entitlement programs such as social security and medicare, the balances of their trust funds represent permanent spending authority. In the case of other programs, such as highway programs, the balances represent the amount available to be spent with *annual* or periodic approval by Congress.

A one time change that causes a trust fund program to have surplus receipts can be deemed to reduce Government borrowing from the public, in the absence of any offsetting fiscal policy. Fiscal policy, however, is not determined by any single program or change to it. It is the outcome of many actions taken by Congress. The resulting aggregate (unified) budget deficit today, and the borrowing from the public it causes, is a product of all the spending and taxation decisions made by Congresses and Administrations over many years. To say a surplus or shortfall of social security taxes reduces or increases the deficit assumes that all other spending and taxation decisions have generally been made without any regard for social security's income and outgo, and vice versa.

Although the way Federal trust funds are labelled and portrayed leads many people to view them as separate money sources, the cash flow these programs create for the Government does not affect the financial markets and the economy independently of the rest of the Government. Trust funds contribute as greatly as any other program to the Government's financial condition. With respect to the deficit, it is really the Government's overall financial condition that is of primary importance to the markets and the economy, not the cash flow created by individual components of the Government.

WHAT ARE FEDERAL TRUST FUNDS AND HOW DO THEY WORK?

An account of the Treasury Department is designated as a "trust fund" by the Office of Management and Budget (OMB) in consultation with the Treasury Department, based on whether the law authorizes such a designation.[3] This differs from the private accounting concept of a "trust," which refers to the funds of one party held by a second party (the trustee) in a fiduciary (caretaker) capacity. For a Federal account, the term "trust fund" does not mean that the Federal Government is acting in a fiduciary capacity; it is merely a special account designation based in law.[4]

Federal trust funds typically have been established for programs that have very long-term purposes. Some were established with an understanding that in exchange for the public's paying certain new taxes or premiums, the Government would commit itself to finance some specific activity. Others do not require the payment of a specific tax, but still represent a long-term commitment of the Government to do something for a segment of the population. Yet a third group represents a blend, with partial funding coming from taxes or contributions paid by the affected population and the remaining funding coming from the Government. In some instances, trust funds were seen as a means of accumulating reserve spending authority for future Government spending. Others were intended to simply provide reserve spending authority to meet contingencies--no large buildup was intended.

Whatever their intended purposes, Federal trust funds are basically recordkeeping devices that account for the spending authority available for certain programs. Their "accounting" treatment by the Treasury is specified by law and it is important for internal bookkeeping purposes. Moreover, the existence of trust fund programs influences congressional policymakers, Federal agencies, and the public in making economic decisions. However, whatever varied effects they have, trust funds are not "caretaker" entities of the Federal Government that hold and dispense funds. They are as much a part of the Government as any other program and directly influence the overall financial condition of the Government.

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[3] U.S. General Accounting Office. *Budget Issues: Trust Funds and Their Relationship to the Federal Budget*. GAO/AFMD, Sept. 1988. In their report, GAO states that trust fund designations are sometimes inconsistently applied; that programs doing similar things in a similar manner are sometimes designated as trust funds and sometimes as accounts of the Treasury Department's general fund. They cite two similar programs: the Environmental Protection Agency's Hazardous Substance Superfund, which is designated a trust fund, and the Department of Energy's Nuclear Waste Fund, which is designated a "special fund."

[4] The distinction is made in U.S. Office of Management and Budget. *Historical Tables, Budget of the United States Government, Fiscal Year 1990*. Jan. 1989. p. 14. There is one special account that the Government manages that may closely resemble a "trust" in the private accounting sense: the Federal Employees' Thrift Savings Plan (TSP). It is neither a trust fund nor an account in the general fund. The TSP is a special entity that establishes individual accounts owned by their contributors, with the owners capable of periodically shifting their funds among three investment options (Federal Government debt, common stock, and fixed income investments). Because of this feature, the TSP is not considered part of the Federal budget.

Trust Fund Receipts and Spending

Federal trust fund programs can generate cash receipts from the public, such as from social security or gasoline taxes, or they may be simply credited with Government "payments" (i.e., income that does not reflect any receipts from the public) such as interest from the Government on their "holdings" of Government securities or Government "contributions" to the program involved. Most do generate at least some receipts from the public. Some, such as social security, unemployment insurance, highway funding, and medicare HI generate tax revenues that match or exceed their spending. However, two of the major ones generate receipts that only partially cover their expenditures, and another generates none. For instance, premiums paid by recipients cover only 27 percent of expenditures of the medicare SMI program. Civil service contributions similarly cover only 15 percent of the cost of the civil service retirement system. Military retirement requires no contributions at all from military personnel. These three programs are heavily or exclusively dependent on Government "payments".

Under current Government accounting rules, receipts from the public and Government "payments" are both counted and treated identically in Federal budget documents and individual reports of trust fund financial operations. They are combined to arrive at a figure for total income of a trust fund.

Table 1 on the following page shows a summary of income and outgo for the largest Federal trust funds under this traditional method of accounting, with income representing **both** receipts from the public and Government "payments." Table 2 shows only the receipts from the public and payments to the public for these programs.[5]

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[5] There are forms of "paper outgo" as well, i.e., "payments" from one trust fund to another and "payments" from trust funds to the Treasury's general fund. They are reflected in table 1, but not in table 2. However, they account for a relatively small share of the aggregate difference in the figures reflected in the two tables--$5.4 billion in FY 1989.

TABLE 1. Total Income Credited to Trust Funds and Total Outgo Recorded Against Trust Funds, FY 1989 ($ in billions)

	Total income	Total outgo	Difference
Social security	$286.1	$233.6	$52.5
Unemployment insurance	25.5	18.7	6.8
Civil service retirement*	48.8	29.2	19.6
Medicare	118.9	96.6	22.3
Military retirement	34.0	20.2	13.8
Highway	16.9	14.5	2.4
All other	30.2	24.0	6.2
Total	560.4	436.8	123.6

TABLE 2. Receipts and Payments from and to the Public for Trust Fund Programs, FY 1989

	Receipts from the public	Payments to the public	Difference
Social security	$267.4	$232.5	$34.9
Unemployment insurance	22.0	16.8	5.2
Civil service retirement*	4.5	29.2	-24.7
Medicare	65.9	85.0	-18.6
Military retirement	0	20.2	-20.2
Highway	15.6	14.5	1.1
All other	10.3	5.1	5.2
Total	385.7	403.3	-17.6

*Includes both the old civil service retirement and disability system and the new Federal employees retirement system (FERS).

NOTE: In table 2 receipts from the public represent social insurance and other taxes. However, in conformity with budget accounting practices, payments to the public for trust fund programs are reduced here to take account of proprietary receipts (such as medicare premiums) and "payments" from certain trust funds to the Treasury's general fund. See technical notes in the appendix for details.

Source: Both tables were derived from data contained in the *Budget of the United States Government, Fiscal Year 1991*. Jan. 1990.

Government "payments" to the trust funds account for most of the difference between the figures shown under the traditional accounting display (table 1 above) and those in the display showing only the receipts and payments from and to the public (table 2 above). In total, trust funds "received" about 28 percent of their FY 1989 total income, or $147 billion, in this form. While Congress has legislated these allocations for a variety of reasons to recognize and support the explicit goals and purposes of the programs, these "payments" do not represent receipts from the public and involve no exchange of money. They are bookkeeping entries, representing budgetary resources (authority to spend), having no direct effect on total Federal spending, revenues, or the deficit. Table 3 shows the various forms of these "payments" posted to the major trust fund accounts in FY 1989.

TABLE 3. "Government Payments" to Major Trust Funds, FY 1989
($ in billions)

Social security	
Interest on Federal securities	$11.4
Government share of tax as employer	4.9
Special payments	2.4
Total social security	18.6
Unemployment insurance	
Interest on Federal securities	3.3
Advances from the general fund	0.2
Total unemployment insurance	3.5
Civil service retirement*	
Interest on Federal securities	17.4
Government contribution as employer, including payment for past liabilities	26.9
Total civil service retirement	44.3
Medicare (parts A & B combined)	
Interest on Federal securities	7.6
Government share of tax as employer	2.0
Government contribution to SMI & other payments	31.8
Total medicare	41.4
Military retirement	
Interest on Federal securities	5.6
Government contribution as employer, including payment for past liabilities	28.3
Total military retirement	33.9
Highway	
Interest on Federal securities	1.2
Total highway	1.2

*See note at the bottom of table 2.

Source: Derived from the *Budget of the United States Government, Fiscal Year 1991*. Jan. 1990.

Trust Fund Transactions with the Public

What happens to the money that trust fund programs do raise from the public? As with all other money taken in by the Government, it goes into the Treasury.[6] Does it remain there until needed to pay the trust fund program's bills? No, it goes out almost immediately to pay whatever obligations the Government has incurred. The Treasury Department, acting as the Government's banker, credits the proper trust fund account with the receipts. It typically does this by posting a nonmarketable Federal security (a bill, note, or bond) to the account--in essence, providing the program with an IOU.[7] In some instances, it simply posts a "credit" (not a security), but this is a far less common practice. As expenditures are made for trust fund programs, the Treasury Department issues checks and reduces the amount of IOUs posted to the account--it reduces the trust fund's balance.

In other words, as in the case of almost all other Government financial operations, the actual money to and from the public for trust fund programs flows through the Treasury. The transactions are reflected as bookkeeping entries to the various trust fund accounts.

Chart 2 on the following page depicts the separation between the Treasury Department's handling of money and its accounting for trust fund transactions.

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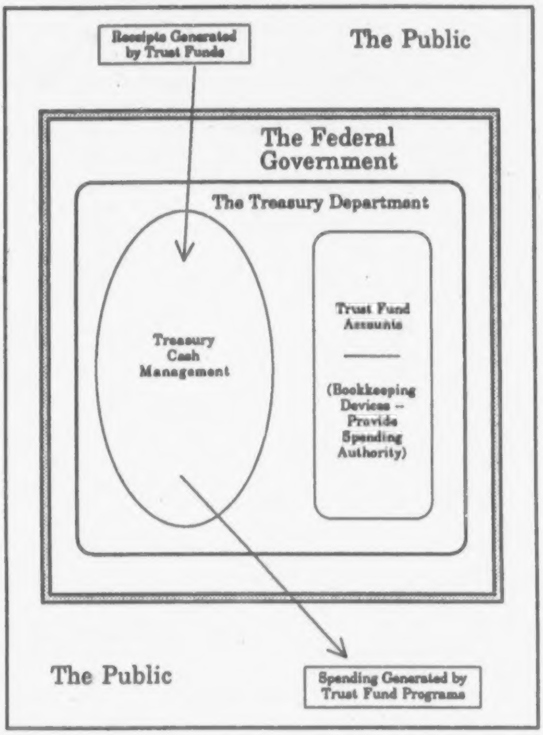
[6] The Treasury is actually a generic term for cash management or depository accounts that the Government maintains with financial institutions across the country. Some 15,000 such institutions--mostly national banks--serve as conduits for money exchanged between the Government and the public. No money is exchanged between these institutions and Federal trust funds.

[7] The trust funds also may be credited with marketable Federal securities, however, this is done infrequently. As of the end of FY 1989, only about $15 billion of the holdings of Federal trust funds were in marketable form (out of total trust fund holdings of $660 billion).

CHART 2. How the Treasury Manages Trust Fund Programs


Receipts Generated by Trust Funds
The Public
The Federal Government
The Treasury Department
Treasury Cash Management
Trust Fund Accounts
(Bookkeeping Devices -- Provide Spending Authority)
The Public
Spending Generated by Trust Fund Programs

The securities that Federal trust funds hold represent a promise of future funding for the programs involved. Notably, they carry many of the same attributes as Federal securities sold to the public: a maturity date is set for each one, interest is accrued, and they count as part of the Federal debt. But they are not traded in the marketplace, and they do not fluctuate in value with rising and falling interest rates. Moreover, the interest they accrue, unlike securities held by the public, does not cause an exchange of economic resources. Although these interest "payments" are posted to the trust funds as income and as expenditures from the Treasury's general fund, they simply take the form of another nonmarketable security (i.e., another IOU). And since no money is actually paid to anyone, this interest is excluded from the budget totals. However, if the trust funds were made independent of the Government, the interest they earn would be considered a budget expenditure.

In this case, payments would flow from the Treasury, and money would have to be obtained to make them.[8]

Viewing the Federal Government as an extended family may be helpful. Assume that one bank account is used to collect all the family's income and to pay all its bills. The family keeps records of who has earned what and how much it will spend for each member. The gas company, the family doctor, and the grocer care about whether the family can pay its bills. The banker is concerned about whether the family can make its mortgage payments. Who earns the money or whether interest-bearing IOUs are exchanged between family members is really of no concern to them. To outsiders, it is the financial condition of the family as a whole that determines whether they will supply the family with goods and services and assist it financially.

In a similar vein, the gross Federal debt is comprised of two parts: (1) debt "held" internally by the Government (mostly by trust funds) and (2) debt held by the public.[9] When the Government sells new securities in the marketplace, it is asking individuals, businesses, and other Governments to lend it money. And by so doing, it is absorbing funds that would otherwise be available for investment in the financial markets. Internally issued debt to trust funds has no effect outside the Government. It is the portion of the Federal debt issued to and held by outsiders that influences the economy.

THE BUDGET IMPACT OF FEDERAL TRUST FUNDS

The role of trust fund programs in the Federal budget and economy has expanded tremendously since World War II. Much of the increase is due to the growth of social security and other retirement programs (e.g., civil service and military), and the creation in the mid-1960s of the medicare program. Chart 3 on the following page shows these trends. Receipts from the public for trust fund programs increased steadily in the post war period as a percent of Gross National Product (GNP), while all other Federal receipts fell. By FY 1989, receipts for trust fund programs accounted for 4 out of every 10 dollars collected by the Government (excluding borrowings from the public). Expenditures for trust fund programs also grew steadily as a percent of GNP, while all other Federal spending remained fairly constant. By FY 1989, trust fund programs accounted for 1 out of every 3 dollars of Federal spending.

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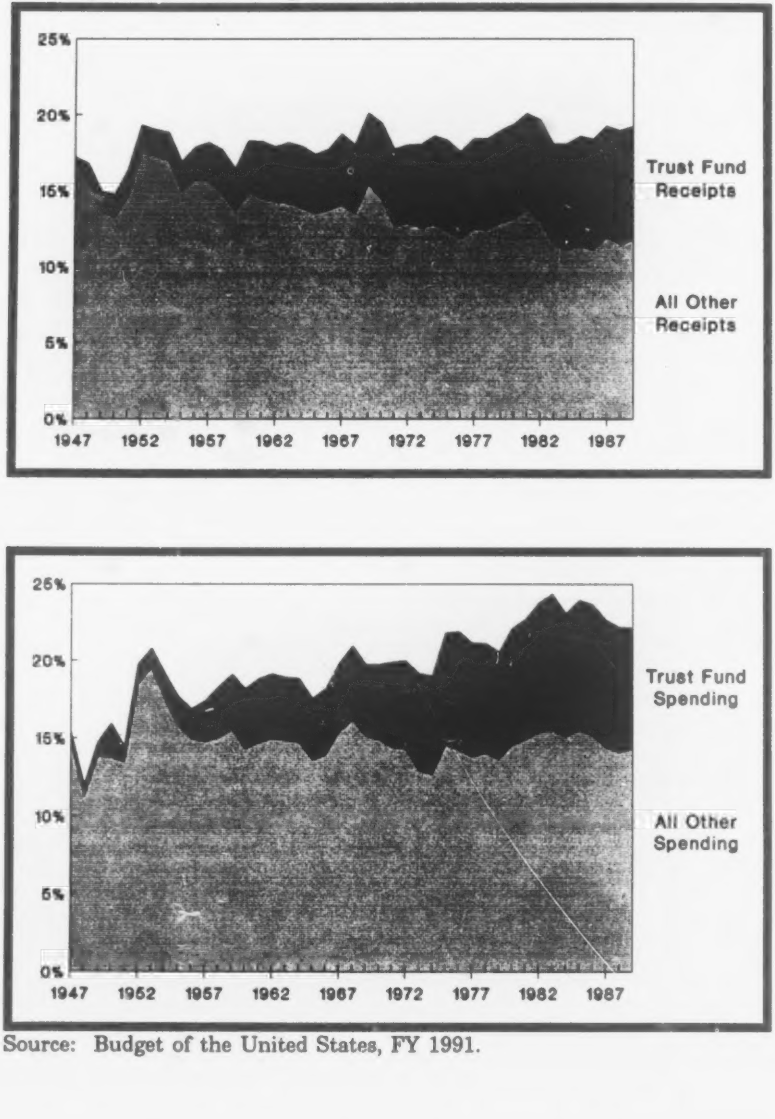
[8] It should be noted that if a trust fund program were taken out of the budget (i.e., placed "off budget") but not made independent of the Government, interest payments to the trust fund would show up as an expenditure in the budget totals, as would any other "Government payment" to a trust fund. In this situation, the budget would include expenditures that did not cause a flow of funds out of the Treasury.

[9] It should be noted that the Treasury Department can issue new debt only to the extent that the amount Federal debt outstanding at any given time stays within a limit established and periodically adjusted by Congress. This limit includes both debt held by the public and by Government accounts.

CHART 3. Share of Total Federal Receipts and Spending Caused by Trust Fund Programs, FY 1947-89 (Percent of GNP)[10]



Source: Budget of the United States, FY 1991.

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[10] See note at the bottom of table 2 for definition of trust fund receipts.

Effect of Trust Fund Programs on the Federal Deficit

The unified budget deficit is the difference between total receipts and spending of the Government. It represents the amount of funds that must be raised by the Government through the sale of bonds, i.e., how much it must borrow. Said another way, only financial transactions with the public affect the amount of borrowing the Government must undertake in the financial markets. Internal transactions of the Government, such as the crediting of trust funds with interest, do not change governmental receipts and spending and therefore have no direct effect on how much the Government must borrow.[11]

Removing the internal transactions from the recorded trust fund income and outgo figures presents trust fund operations on the basis of what the Government receives and spends for them, i.e., a cash-flow basis. An excess of receipts from the public over spending would mean that they have run a cash "surplus"; an excess of spending over receipts indicates a cash "deficit."

Chart 4 shows the trends in the Government's cash flow for these programs from FY 1940 to 1989. Chart 5 shows the annual surpluses and deficits resulting from these trends. Together, they show a picture that is understandably very different from that usually described. Rather than running huge surpluses, these programs have been in chronic cash deficit since 1970. From 1940 to 1970, the surplus years outnumbered the deficit ones 18 to 12; however, the largest of these surpluses occurred during World War II, or immediately thereafter. Trust funds consistently ran surpluses from 1940 to 1948, and again during the early- to mid-1950s, but ran deficits from 1957 to 1966. Since 1969, the last year the Government ran a unified budget surplus, trust fund programs ran a surplus in only 1 year (1970). On a cash-flow basis, even social security experienced deficits in all but 5 of the years from 1957 through 1984. (See tables A.1 and A.2 in the appendix.)

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[11] The total Federal expenditure figure shown in budget documents (outlays) represents only payments to the public. All internal accounting transactions are "netted out" of that figure, since they do not cause the Treasury Department to write a check, pay cash, or make an electronic transfer of funds from the Government to the public. While internal transactions are displayed in individual accounts of the budget--most frequently in the form of Government "payments" to them--offsetting adjustments are made in arriving at the budget totals.

CHART 4. Cash Receipts and Spending Caused by Trust Fund Programs, FY 1940-89 (Percent of GNP)

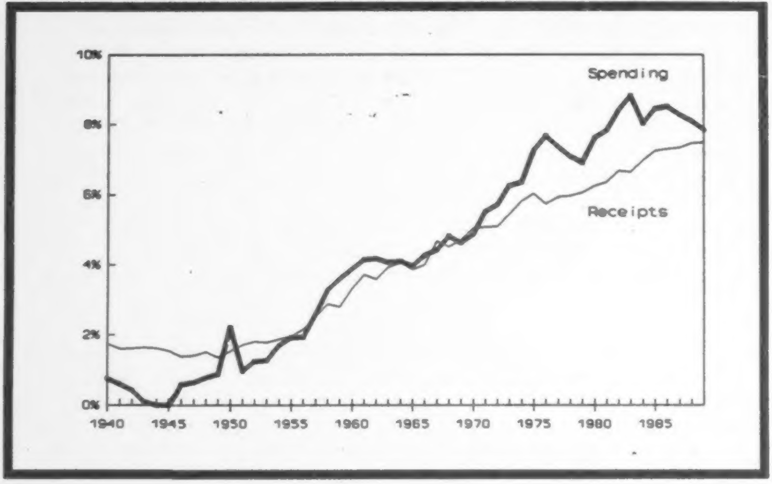
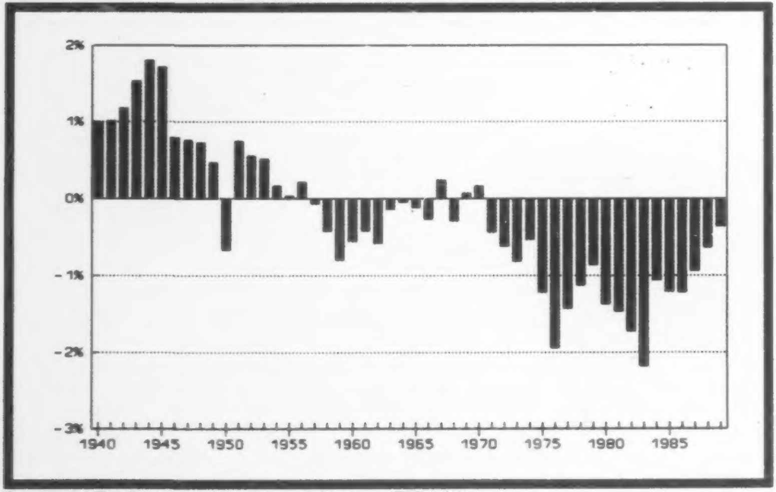


CHART 5. Cash Surplus or Deficit Caused by Financial Flows of Trust Fund Programs, FY 1940-89 (Percent of GNP)



Source: Budgét of the United States, FY 1991.

It frequently is asserted that because trust funds generally are showing surpluses in their individual accounts, the Federal deficit is caused by everything else the Government does. On a cash-flow basis both parts of this assertion are misleading. First, as previously shown, for many years trust fund programs overall have not raised as much revenue from the public as they have spent--they ran deficits. This means that on a cash-flow basis, the rest of the Government--i.e., the non trust fund part--has not been exclusively responsible for Federal borrowing and the resulting build-up of debt held by the public. Second, the rest of the Government is currently running a surplus if interest on debt held by the public is excluded. Although this interest is often attributed to the non-trust fund part of the budget, trust fund programs--by running cash flow deficits--also can be considered responsible for the current level of publicly-held debt. Therefore, both trust fund and non-trust fund deficits have contributed to the current level of Government interest expenditures.

Table 4 presents the Federal deficits over the past decade in three parts: (1) trust fund transactions to and from the public, (2) other Government transactions to and from the public, and (3) interest payments to the public. The first column shows the total Federal deficits. The second column shows surpluses or deficits for trust fund programs on a cash-flow basis. The third column shows surpluses or deficits for the rest of the Government on a cash-flow basis (excluding interest). The fourth column shows interest expenditures on the publicly-held debt (what is often referred to as "net" interest).

TABLE 4. Federal Deficits, FY 1980-89 ($ in billions)

Fiscal year	Total deficit	Trust funds cash-flow surplus/ deficit	Other Government cash-flow surplus/ deficit	Net interest
1980	- $73.8	- $36.4	+ $15.1	- $52.5
1981	- 78.9	- 43.6	+ 33.4	- 68.7
1982	- 127.9	- 54.1	+ 11.1	- 85.0
1983	- 207.7	- 72.4	- 45.6	- 89.8
1984	- 185.3	- 39.1	- 35.1	- 111.1
1985	- 212.3	- 47.9	- 34.9	- 129.4
1986	- 221.2	- 50.8	- 34.4	- 136.0
1987	- 149.7	- 41.4	+ 30.2	- 138.6
1988	- 155.1	- 30.3	+ 27.0	- 151.7
1989	- 151.9	- 17.6	+ 34.7	- 169.1

Source: Derived from data contained in the *Budget of the United States Government, Fiscal Year 1991*, Jan. 1990.

Effect of Trust Fund Programs on the Federal Debt

A rise in trust fund holdings, generated either from excess receipts from the public or Government "payments," increases the reported gross Federal debt. However, the portion of the debt held by trust funds does not represent a financial claim on the Government by anyone outside of the Government. A trust fund program may entitle people to certain benefits; but it is this entitlement to which people have claims, rather than the Government's accumulation of internal IOUs. Moreover, debt held by trust funds does not represent a resource that the Government can draw upon to fulfill any obligations incurred on behalf of trust fund programs. Therefore, building trust fund reserves and adding to debt held by Government accounts today does not *by itself* reduce future budget deficits. In fact, such action may increase future deficits (and hence raise the debt held by the public), since this internal debt is basically spending authority that may be available to trust fund programs without further congressional action.

Debt held by the public, on the other hand, represents financial claims by domestic households, businesses, and foreign entities on the Federal Government. For economic analysis, it is the debt held by the public, not the gross debt, that is relevant.

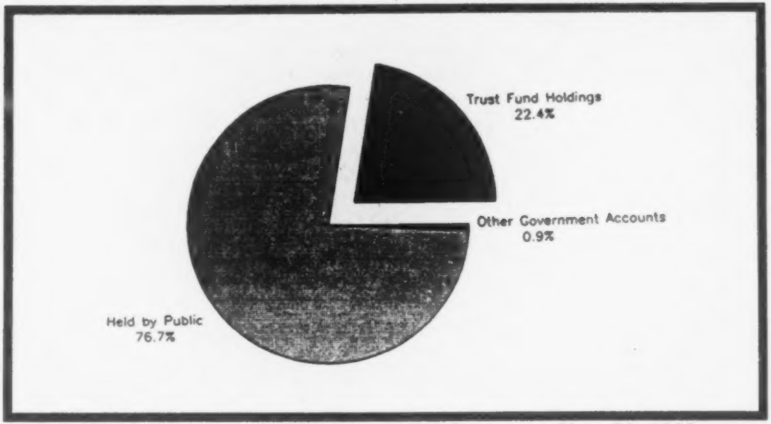
TABLE 5. Federal Debt Held by Trust Funds and the Public, November 30, 1989
($ in billions)

Trust fund	Holdings
Social security	$ 155.7
Medicare	93.5
Civil service retirement	216.3
Military retirement	66.1
Unemployment insurance	45.3
Highways	16.4
All other	66.4
Total trust fund holdings	659.7
Other Federal account holdings	25.7
Federal debt held by the public	2,260.7*
Gross Federal debt	2,946.1

*Includes $19.2 billion in net discounts on public debt securities.

Source: Derived from the *Monthly Treasury Statement*, Nov. 30, 1989. For a more detailed summary, see table A.3 in the appendix.

CHART 6. Federal Debt Held by Trust Funds as a Percent of Gross Federal Debt, November 30, 1989



Source: Derived from the *Monthly Treasury Statement*, Nov. 30, 1989.

CONCLUSION

Federal trust funds generally are perceived as independent or quasi-independent financial entities. In reality, however, they are not. Their existence is based on Federal laws and policies; their programs are administered by agencies of the executive branch; their special taxes and premiums are collected by the Treasury Department and deposited in the U.S. Treasury; and their holdings are, for the most part, Federal non-marketable securities. More importantly, their financial operations are not separate transactions in the financing of the Government, and, therefore, they are relevant in the formulation of overall budget and economic policies--their income and outgo to and from the Government matter. If they were considered irrelevant, the Government would be ignoring 39 percent of its revenues and 35 percent of its spending.

A summary look at the Federal budget suggests that trust funds are more than carrying their load and that all other accounts are "overdrawn," but the formal presentation and accounting reflected in the budget is only one way of examining the data. Ignoring internal credits to trust funds--credits that *are* important for budget formulation and the Government's allocation of spending authority--reveals that trust funds have had cash-flow deficits with the public for many years. Even social security, which is currently running cash-flow surpluses, had cash-flow deficits for many years. If the overall Federal deficits are not completely caused by the non-trust fund part of Federal activities, then the resulting build-up of Federal debt held by the public and subsequent interest on that debt also are not exclusively attributable to the non-trust fund portion of Federal activities. And if interest expenditures are excluded from both trust fund and non-trust fund expenditures, the non-trust fund portion of Federal activities currently shows a surplus. The point is that, on a cash-flow basis, no one program or sector of the Government is responsible for deficits and the accumulation of Federal debt held by the public. It is the Government's operations in the aggregate that matter in determining the deficit.

The buildup of trust fund holdings adds to the gross Federal debt figure, but that buildup simply reflects the Government's holding of IOUs to itself. What really matters to the economy is the change in Federal debt held by the public. This is what has a market impact, affects interest rates, and causes expenditures from the Treasury for debt service. Debt service to a trust fund, although important for internal allocation purposes, is simply a ledger entry. Debt held by the public reflects the accumulation of unified budget deficits--or how much more overall the Government spent than it received in revenues--and interest payments on this portion of the debt require the Government to acquire and spend real resources.

Federal trust fund programs do not by themselves affect national savings, and their holdings do not necessarily represent national savings. They are claims *on* the Government, not *for* the Government. Their value depends on the Government's ability to draw money from the economy to honor them when program obligations are presented for payment. For their financial health, trust fund programs are just as dependent upon the financial health of the Government as is any other Government program. The financial health of the Government comes from the health of the economy and the Government's ability to draw resources from it. Many economists contend that greater national savings is important for the long-run health of the economy. Government borrowing from the public, however--for whatever reason--can run counter to that objective. Government borrowing takes funds from the financial markets, and the concern is that it limits the amount of potential private sector investment, causes interest rates to be higher than they otherwise would be, and makes the U.S. dependent upon foreign investment capital. Reducing this borrowing--i.e., the aggregate (or unified budget) deficits--is potentially one way that the Government can contribute to national savings.

APPENDIX

TABLE A.1. Receipts From the Public, Outlays, and Surplus/Deficit for All Federal Trust Funds Combined, FY 1940-1989

($ in millions)

Fiscal year	Receipts from the public	Payment to the public	Surplus/ deficit (-)
1940	1,673	721	953
1941	1,814	671	1,143
1942	2,297	620	1,677
1943	2,883	184	2,699
1944	3,279	*	3,279
1945	3,281	*	3,281
1946	2,935	1,234	1,701
1947	3,144	1,445	1,699
1948	3,746	1,932	1,814
1949	3,572	2,333	1,240
1950	4,114	5,888	- 1,774
1951	5,440	3,077	2,363
1952	6,188	4,257	1,931
1953	6,546	4,653	1,893
1954	6,952	6,313	640
1955	7,611	7,457	154
1956	9,025	8,119	906
1957	11,176	11,461	- 285
1958	12,959	14,836	- 1,877
1959	13,502	17,348	- 3,846
1960	16,910	19,729	- 2,819
1961	19,276	21,463	- 2,187
1962	20,049	23,283	- 3,234
1963	23,099	23,921	- 822
1964	25,504	25,790	- 286
1965	25,957	26,706	- 749
1966	29,492	31,501	- 2,009
1967	37,089	35,148	1,941
1968	38,346	40,798	- 2,452
1969	43,667	42,996	671
1970	49,733	48,099	1,634
1971	53,449	58,075	- 4,626
1972	58,568	65,694	- 7,126
1973	69,563	79,988	-10,425
1974	82,207	89,775	- 7,568
1975	91,725	110,220	-18,495
1976	97,153	130,098	-32,945
1977	114,427	142,000	-27,573
1978	129,329	153,771	-24,442
1979	147,919	168,933	-21,014
1980	166,623	203,065	-36,442
1981	189,566	233,177	-43,611
1982	209,269	263,346	-54,077
1983	220,347	292,772	-72,425
1984	256,889	295,988	-39,099
1985	285,685	333,550	-47,865
1986	304,578	355,356	-50,778
1987	324,692	366,052	-41,556
1988	357,425	387,754	-30,642
1989	385,740	403,296	-17,556

*Denotes negative outlays.

Source: Derived from *Budget of the United States, Fiscal Year 1991*. Jan. 1990.

TABLE A.2. Social Security Receipts from the Public, Outlays, and Surplus/Deficit, FY 1940-1989
($ in millions)

Fiscal year	Receipts from the public	Payment to the public	Surplus/ deficit (-)
1940	$ 550	$ 29	$ 522
1941	688	91	597
1942	896	137	759
1943	1,130	176	954
1944	1,292	217	1,075
1945	1,310	267	1,043
1946	1,238	358	880
1947	1,459	467	992
1948	1,616	559	1,057
1949	1,690	661	1,030
1950	2,106	784	1,322
1951	3,120	1,568	1,552
1952	3,594	2,067	1,527
1953	4,097	2,717	1,380
1954	4,589	3,364	1,226
1955	5,081	4,437	644
1956	6,425	5,485	940
1957	6,789	6,666	123
1958	8,049	8,221	- 172
1959	8,296	9,737	- 1,441
1960	10,641	11,609	- 968
1961	12,109	12,475	- 366
1962	12,271	14,367	- 2,096
1963	14,175	15,790	- 1,615
1964	16,366	16,622	- 256
1965	16,723	17,463	- 740
1966	19,085	20,701	- 1,616
1967	24,401	21,726	2,675
1968	24,917	23,854	1,063
1969	28,953	27,298	1,655
1970	33,459	30,270	3,189
1971	35,845	35,873	- 28
1972	39,907	40,158	- 251
1973	46,084	49,090	- 3,006
1974	53,925	55,867	- 1,942
1975	62,458	64,658	- 2,200
1976	66,389	73,899	- 7,510
1977	76,817	85,060	- 8,243
1978	85,391	93,861	- 8,470
1979	97,994	104,073	- 6,079
1980	113,209	118,559	- 5,350
1981	130,176	139,584	- 9,408
1982	143,467	155,964	-12,497
1983	147,320	170,305	-22,985
1984	168,350	177,677	- 9,327
1985	189,540	188,258	1,282
1986	203,786	198,598	5,188
1987	216,709	207,352	9,357
1988	244,882	219,340	25,542
1989	267,439	232,543	34,897

Source: Derived from *Budget of the United States, Fiscal Year 1991*. Jan. 1990.

TABLE A.3. Federal Debt Held by Federal Trust Funds, November 30, 1989
($s in billions)

Trust fund	
Old age and survivors insurance	$147.9
Disability insurance	7.8
Hospital insurance	82.6
Supplementary medical insurance	10.9
Civil service retirement	216.3
Military retirement	66.1
Unemployment insurance	45.3
Highways	16.4
Airport and airways	13.1
Railroad retirement	8.6
All other	44.7
Total trust fund holdings	659.7

Source: Table prepared by CRS based on data from the *Monthly Treasury Statement*, Nov. 30, 1989.

TABLE A.4. Total Interest, Interest Paid to the Public, and Interest Credited to Government Accounts, FY 1962-1988
($s in billions)

			Government accounts	
Fiscal year	Total	Public	Trust funds	Other
1962	$9.5	$7.9	$1.4	$0.2
1963	10.3	8.7	1.5	0.1
1964	11.0	9.2	1.6	0.2
1965	11.8	9.8	1.8	0.2
1966	12.6	10.4	1.9	0.2
1967	14.2	11.6	2.3	0.3
1968	15.6	12.6	2.7	0.3
1969	17.6	14.1	3.1	0.4
1970	20.0	15.6	3.8	0.6
1971	21.6	16.3	4.8	0.5
1972	22.5	16.6	5.1	0.7
1973	24.8	18.5	5.4	0.9
1974	30.0	22.4	6.6	1.1
1975	33.5	24.7	7.7	1.1
1976	37.7	28.7	7.8	1.2
1977	42.6	33.0	8.0	1.6
1978	49.3	39.2	8.5	1.7
1979	60.3	48.3	9.9	2.2
1980	75.2	60.4	12.0	2.8
1981	96.0	78.9	13.8	3.3
1982	117.5	97.7	16.1	3.8
1983	128.9	107.7	17.1	4.2
1984	154.1	129.0	20.4	4.8
1985	179.4	148.2	26.2	5.0
1986	191.5	155.4	27.9	8.3
1987	197.1	157.5	35.0	4.6
1988	216.5	169.8	41.8	4.9

Source: Derived from the *Budget of the U.S. Government. Fiscal Year 1990, Historical Tables*. Jan. 1989. U.S. Treasury. *Treasury Bulletin*, summer issue, Sept. 1989; *Final Monthly Treasury Statement of Receipts and Outlays for FY 1989*. Sept. 1989.

TECHNICAL NOTES

The information on trust fund receipts and spending in this paper is from various documents released with the President's FY 1990 and 1991 budgets in January 1989 and 1990. Most important to this analysis is differentiating between total trust fund income and outgo, as reported in these budget documents, and receipts from the public and outlays made to the public. This was done using only the published information; therefore, some of the idiosyncracies of Federal accounting may affect the accuracy of trust fund programs' transactions with the public reflected in this paper.

Trust fund "income" and "outgo" in this paper represent the figures shown in traditional analyses of trust fund transactions. Income is the amount credited to the trust fund over a year; outgo is the amounted debited from the trust fund. These figures, however, do not represent the Government's transactions with the public that are generated by trust fund programs (that is, the cash flow to and from the Government). The transactions with the public are **not** reported as such in official budget documents, but must be derived from the detailed information on trust fund activities shown therein.

Definition of Receipts and Outlays

The Federal deficit is the difference between the Government's revenues received from the public and payments made to the public. A surplus or deficit for trust fund programs can similarly be defined as the difference between receipts from the public and payments to the public.

In the Federal budget, receipts from the public are accounted for in two ways: (1) as tax receipts and (2) as proprietary receipts. Tax receipts represent payments to the Government resulting from the exercise of the Federal Government's sovereign power to tax; that is, they represent compulsory payments from the public. Proprietary receipts are payments from the public for various "business activities" of the Government. For example, proceeds from sales of Government property and user fees are proprietary receipts. Medicare premiums for SMI similarly are considered proprietary and not tax receipts, since the program's recipients voluntarily enroll with the Government for SMI coverage.

The Federal budget accounts for tax receipts as "governmental receipts," and most analyses shown in the budget for total Federal receipts include only tax receipts. Likewise, the tables that show "trust fund receipts from the public" in this paper represent only the revenue raised through taxation. Proprietary receipts are accounted for in the Federal budget as an offset to outlays. (That is, rather than being added to total income to the Government, proprietary receipts are subtracted from total outgo from the Government.) In this case, trust fund outlays represent net payments to the public (spending minus proprietary receipts). While such an accounting may complicate an analysis that attempts to highlight income from and outgo to the public, the lack of a published historical series on trust fund proprietary receipts requires this report to conform with standard Federal accounting by having proprietary receipts reduce outlays. It should be noted that the accounting of proprietary receipts as either additions to the receipts-side of the budget or a subtraction from the spending-side of the budget does not affect the resulting deficit figure.

Trust Fund Receipts and Outlays

Trust fund tax receipts from the public were identified by using information from the historical tables section of the *Budget of the United States, Fiscal Year 1991* and from the budget *Appendices* for various years. Trust fund tax receipts represent:

1. Social insurance taxes and contributions and excise taxes identified as going to trust funds in table 2.4 (p. A-288 to A-289).

2. Trust fund amounts included in "Other Receipts" in table 2.5 (p. A-291).

3. Corporate income taxes for trust funds identified in the footnote of table 2.1 (p. A-285).

4. Income taxes to the medicare SMI trust fund for catastrophic health insurance (FY 1989 only), shown on table 13.1 (p. A-329).

In addition, the trust fund tax receipt information shown in this report includes receipts from the income taxation of social security and railroad retirement benefits. In official budget documents, these taxes are receipts to the general fund and are then "transferred"--credited--to social security.

Trust fund net outlays (payments to the public minus proprietary receipts) are somewhat more complicated to derive because of the off-budget status of social security and the lack of a historical series on intragovernmental accounting transactions from trust funds to the Government's general fund. However, interfund payments from trust funds to the general fund are generally small; thus any errors in identifying these transactions would not substantially affect the data shown in this report.

In the historical data series, intragovernmental receipts to social security (for interest, for the Federal employer share of the tax, etc.) are deducted from the total off-budget outlay amount. Thus, the off-budget total outlay figures are smaller than total social security payments to the public. Social security payments to the public are gross social security outlays without deduction for intragovernmental receipts.

Interfund transactions from non-social security and medicare trust funds to the general fund were obtained from the *status of the funds* schedules in the FY 1991 budget and the *Special Analyses* accompanying earlier years' budgets. They were obtained from the early-1970s forward, when certain trust funds (for example, unemployment insurance), began borrowing "budget authority" credits from the general fund and repaying them. It is possible that some interfund transactions from non-social security and medicare trust funds to the general fund were omitted from the calculations shown in this report.

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Pete V. Domenici and J. Bennett Johnston

How to Fix the Budget Process

Now that the 101st Congress has convened, we have new chairmen heading the two congressional budget committees, to be followed soon by a new director of the Congressional Budget Office.

It's time we also had a new budget process. We suggest six changes, ones we will propose in legislation.

First, we need to fold the two existing budget committees into a single joint budget committee that includes the leadership of both the House of Representatives and the Senate, plus the current chairmen and ranking Republicans of the Appropriations, Budget, Finance, and Ways and Means committees. It would be a committee with—and this is key—leadership clout.

Second, the president must become more involved in the budget decisions. That can be accomplished by making the budget resolution the kind of resolution that requires the president's signature.

That way, the "budget" would carry the force of law, not simply serve as a congressional "blueprint."

Third, the new joint committee should produce two-year budgets at the beginning of each Congress. President Reagan endorsed the multi-year approach in his final budget. President Bush will concur. The old and new chairmen of the House Budget Committee have supported two-year budgets. Such budgets would include mandatory targets for three general categories of spending: domestic, defense, and international affairs. It has proved too easy in the past to siphon money promised to defense and international affairs in the budget into domestic spending later in the annual cycle.

Next, what if Congress fails to adopt a joint budget resolution and slips back into business as usual? We suggest a simple alternative: an "automatic" budget that would take effect on May 15, setting the spending lid at a level consistent with the Gramm-Rudman-Hollings law.

Fifth, we need to strengthen enforcement of a two-year budget, however adopted. Different sets of rules now apply in the House, the Senate and at the Office of Management and Budget over how to "score" legislation. These current rules not only confuse, but permit manipulation to circumvent a budget agreement.

Finally, we should add new, tighter Gramm-Rudman-Hollings targets beyond 1993, the year America is supposed to attain balance in the entire budget. It is well known that the Social Security Trust Fund is projected to run a surplus of around $100 billion in 1993. So even when we reach overall "balance" that year, we'll still run a deficit of $100 billion in non-Social Security spending. We need "surplus targets" beginning in 1994 to eliminate gradually the non-Social Security deficit.

It was 1974 when Congress approved a "new" budget process. Since then, it has received lots of criticism, both from inside and outside Congress.

But in our haste to criticize that process, we must not forget what preceded it. Does anyone really want to return to the days when neither the Congress nor the White House could track spending until long after the laws were adopted? We hope not.

It's time for Congress to strengthen the budget process, not junk it. It is time we changed the way Congress budgets the dollars given us by the American taxpayers and create a process that the president, Congress, and—most importantly—the American people can really count on.

Sens. Domenici (R-N.M.) and Johnston (D-La.) are members of the Senate Budget Committee.

Washington Post
January 13, 1988

April 19 The Washington Post A27

Changed his mind

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Pete V. Domenici

Toward a No-Gimmicks Budget Summit

Leaders must lead even if they are not followed.

April really is the cruelest month, especially for those who watch for cherry blossoms and those of us involved in the nation's budget-making.

Here it is another Washington April, and Congress returns from its recess about as confused on what America's fiscal policy ought to be as it is every year at this time.

We in Congress seem to be drifting toward another year of temporizing, "small steps," political posturing and a general confirmation of the low esteem in which we are held by many of our constituents.

What is wrong? What should we do about it? What are the chances we will do anything at all?

First, what is wrong? If we cannot agree that present levels of federal government borrowing needs are excessive, that present deficits and contingent liabilities are dangerously large and that these distortions are the cause of the policy gridlock that has afflicted Washington in recent years, then we should all agree to end this prolonged and painful deficit debate right now. I believe, as do others who have written of budgets on these pages recently, that our deficit situation in some ways is more crippling and potentially more harmful to our nation's growth prospects than ever before.

Second, what should Congress do about it?

Let me toss in a note of realism here. Congress often overestimates what it can do about most problems, gets frustrated when its unrealistic expectations aren't met quickly and ends up doing very little in consequence. We cannot, by fiscal policy changes alone, improve the nation's educational shortcomings, cure drug and crime problems, eliminate homelessness or prevent the problems that changing demographics will bring us. We can, however, use fiscal policy to improve national savings, to invest more wisely for the future, to strengthen ourselves for the global competition ahead and to end the general public policy gridlock we have endured for too long.

Simply put, we can discharge our responsibility to create a fiscal policy framework within which these larger questions can be addressed with the greatest likelihood of success.

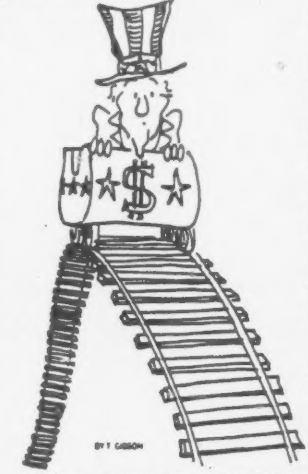
Within these realistic expections, then, what we should do is:

1. Admit the reality of present policy stalemate and the part that recent budget behavior has played in this stalemate.

2. Reform pro-actively, not reactively, large commitments to future generations for which we won't have the money if present policy continues.

3. Take advantage of this rare opportunity to mandate a rational multiyear defense build-down, instead of creating a messy defense melt-down.

4. Eliminate programs that drain resources from more fundamental, and critical, federal activities, such as education.



5. Reform and increase the tax base of the federal government to match the demands of the next century.

6. Stress improvements in growth and productivity and investment policy through tax incentives, research and development emphasis, and expansion of our intellectual capital.

7. Change the way we do budgets and keep our books, particularly in the so-called off-budget and contingent liability areas, to reflect the true costs of federal activity.

Third, how do we go about accomplishing the daunting goals I have outlined?

I believe that a planned, comprehensive budget summit (for want of a better word) between Congress and the administration is necessary, if both sides sign on to the proper agenda. We cannot, and should not, try another exercise in futility that results merely in a makeshift, one-year budget. I urge a summit that produces a policy agreement that allows us to tell America honestly, "No more games, no more gimmicks, this is the real picture."

Here is what I propose for the agenda for my ideal "Last Budget Summit of the Century."

1. All aspects of federal fiscal policy are on the negotiating table, as I have recommended in budgets past.

2. Both pension policy and health policy will be fundamentally reformed to conform to the new demographics of our nation, with the reform to be implemented fully within the next five years.

3. Defense spending will decline as part of a five-year plan designed to meet most effectively and efficiently the new chaos we will face in the next 20 years.

4. When the summit is done we should have eliminated scores of federal programs, reassigning savings to both deficit reduction and increases in more fundamental programs.

5. Tax receipts for government programs will increase, coupled with reforms to the tax code so that we renew our commitment to savings, productivity, growth and investment.

6. We will produce new budget processes, so that we never get in the present fix again and, not incidentally, so that those of us who have budget-making responsibility can look our colleagues and our neighbors in the eye and say, "never again."

Congress and future administrations ultimately will make these decisions, of course. The question is whether we will make these decisions as a part of a long-term, unified plan, or in our normal, ad hoc and sloppy fashion. If we follow the ordinary haphazard course, we will miss the chance to do this all right. We cannot assume that America in the 21st century will have the luxury of indulging in the same partisan politics, preening and posturing that have characterized the past 30 years. Global competition grows more unforgiving every year. We enjoy every advantage necessary to prosper except the advantage of hard-nosed fiscal policy. A multiyear budget agreement, now and not later, could give us that last advantage.

I have voted for, and will vote again under the right circumstances, for each of the agenda items I've outlined above. I fear, however, that what I will have to vote for is another budget driven by the need to meet a one-year deficit target only, not a budget driven by the imperatives I've outlined.

Alas, many more people than just this one senator count in this process. I am unsure that even if I were able to persuade the president and the joint leadership of Congress we would be able to round up the votes to carry it off. Politics may have become so paralyzed by fear and narrow, short-term interest that nothing bold or far-sighted can be done.

But, by trying my approach, at least we would have earned our pay—we would have led even if we were not followed.

The writer, a senator from New Mexico, is the ranking Republican on the Budget Committee.

Chairman **Derrick**. Thank you for excellent testimony, Senator.

Why don't we leave it instead of asking you to come back, would you reply to any written questions that this committee might have about your testimony?

Senator **Domenici**. I would. In fact, I enjoy the dialog, so I will talk with you about whether it is convenient for you for me to come back or not.

Senator **Coats**. If I could, since I have a commitment at 3:30 which I can't change—I just checked to see if I could—could I submit my statement to you?

Relative to process reform, it is the enhanced recision package. Mrs. Martin, along with Congressman Tauke and Congressman Penny, are the sponsors in the House; and she could answer any questions you might have better than I could. I will let her explain the bill to you.

If that is acceptable, I would like to do that.

Chairman **Derrick**. Without objection.

We may present you with some written questions.

Senator **Coats**. I will be happy to do that.

Let me say one thing about having been a former colleague here in the House. When I went to the Senate, one of the first joys I experienced was the fact that there was no Rules Committee, and I therefore then could offer any amendment that I wanted to.

One of the first great disappointments I discovered was being on the floor at 10 o'clock wishing we had a Rules Committee.

Chairman **Derrick**. I have always contended that the Senate would be productive if they had a Rules Committee.

Senator **Coats**. You come by at 10 o'clock, and you will get a lot of votes for that.

[Senator Coats' statement, as though read, follows:]

STATEMENT OF HON. DAN COATS, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator **Coats**. Thank you for allowing me to participate in this hearing on budget process reform. We take up this subject at a fitting moment, as attention turns to a budget summit. You can tell it is that time of year again when a Congressman's fancy lightly turns to thoughts of taxes.

I suppose I am still new enough to this process to be occasionally shocked. It was shocking to see, over the last few days, Members of Congress on national television greeting the prospect of new taxes with barely restrained joy, squirming with delighted anticipation. It is difficult to explain such enthusiasm for something so economically devastating and politically unpopular.

Viewed from the inside, our Federal spending crisis seems arcane, difficult and intractable. From the outside, it is distressingly simple. I have never spoken to a Hoosier who believed he was undertaxed. I have spoken to thousands who are convinced the Government spends too much. There is something obscene in the spectacle of a Congress that crafted a budget process in 1974 that encourages, rewards and hides waste now reveling in the hope of taking more money from its constituents.

When Americans see this kind of display, they come to some natural conclusions. They conclude that the Government actually enjoys increased taxation, since it multiplies its power and control. They conclude that Congress views their wealth, not as the just reward of their own work, but as a source of future revenue.

I believe we have a duty, before beginning our frenzied rituals of confiscation, to consider alternatives. Before I vote to take more money from Hoosiers, I want to be sure we have made every effort to cut spending. I believe one of the strongest options we have is the legislative line item veto.

I and over 60 of my colleagues on both sides of the Capitol, Democrat and Republican alike, have sponsored this bill as a common sense approach to budget reform. It is the result of a thoughtful and workable compromise. It has already had one close vote on the Senate floor last November. Now we plan to offer it again in the next few weeks.

As you know, there is no comparable "Rules" Committee in the Senate as you have here in the House. Senate rules allow for such amendments to be offered directly on the Senate floor to various bills, and I and Senator McCain will be taking advantage of that opportunity in short order.

S. 1553—H.R. 3271 in the Houses—is not complex. It will amend the Budget Control and Impoundment Act of 1974 to put some teeth into what is now a largely impotent rescission process. Our bill will permit the President 20 days from receipt of sending bills to identify items that he believes are flagrant examples of congressional pork. Instead of being forced to choose between vetoing the entire bill and allowing taxpayers dollars to be spent on these often frivolous programs, the President will be able to send all or portions of the pork back to Congress.

If we in the Congress can make the case that these programs are worthy, we can reaffirm our support under the glare of public scrutiny. The House and Senate would have to pass a resolution of disapproval saying no to the President's cuts. These bills would be unamendable on the floor of the House and Senate, and if we do not act within 20 days, the cuts would go into effect. Our resolution of disapproval must then be sent to the President for signature. If it is vetoed again, Congress must override that veto with a two-thirds vote.

Our bill also gives the President another shot at cutting congressional waste, by allowing him to submit proposed rescissions along with his annual budget, providing that these same programs had not been rescinded before in that same fiscal year.

When the present Budget Control and Impounding Act was created, Congress was smarting from a President who had used his impoundment powers broadly and often. The intent of the 1974 law was partly to create a new budget process for the Congress, but mostly to strip the Executive of the budget power it could exercise. Under the current scheme, when the President sends up his recommended rescissions, if Congress does not approve them they are simply ignored.

Any attorney will tell you that who bears the burden of proof can make all the difference in the outcome of a case. In this case, the President barely has a chance * * * inaction on our part is all it takes to kill his recommendations.

Worse yet, the President is further stymied by the fact that we often send up huge omnibus appropriations bills that he must either sign or veto in toto. By carefully mixing essential spending with useless spending, we dare the President to veto the entire bill. Needed legislation is held hostage to pork, and our credibility is extinguished.

I believe that S. 1553, H.R. 3271, is a voice of reason in a babble of tax and spend, tax and spend. If we are ever to solve the deficit, it will be because we say "no" to the squid sorters, the endive research and the gondola projects, and "yes" to important national priorities. It will not be because we further increase the tax burden on American working men and women.

Cutting waste will only be part of a budget solution. But even with a problem as big as ours, the savings could be significant. For the last 13 years, Presidents, proposed nearly $35 billion in rescissions that were rejected by Congress through our inaction. That money would come in handy about now.

I am committed to giving the President of the United States the same power and accountability as 43 of our States' Governors. Let's stop blaming each other, stop maintaining the status quo and back a real solution to our deficit crisis—a solution that involves no back room deals, but encourages accountability.

Thank you, and I'd be happy to take any questions.

Chairman DERRICK. The committee will recess for 10 minutes. Congressman Penny went out to vote.

We will recess a moment, subject to the call of the Chair.

[A brief recess was taken.]

Chairman DERRICK. The committee will start.

We have before us the Honorable Brock Adams, the U.S. Senator from the State of Washington with whom I last served when he was the first chairman of the House Budget Committee to get a resolution through back in 1975 and 1976, a good friend.

Delighted to have you before us, Senator.

We will be glad to have your testimony and be glad to include your entire statement in the record.

STATEMENT OF HON. BROCK ADAMS, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator ADAMS. Thank you, Mr. Chairman.

I would appreciate my entire statement be included in the record as is.

Chairman DERRICK. Without objection.

Senator ADAMS. I will try to summarize as best I can.

Thank you very much, Mr. Chairman, for having me before the committee.

I was going to discuss the Budget Process Reform Act of 1990, H.R. 3929, but I decided not to do that in any detail but really to discuss some alternatives to the budget process reform generally and, perhaps, it may be a little helpful if some of us who were in on the actual construction of this act in 1971, 1972 and 1973, discussed what it was meant to do and what happened to it along the way, because it was not as bad as it is now as it was proposed and as it worked.

I might state that the first budget resolutions went through on time. All 13 bills arrived at the President's desk, all were signed and all were law before October 15, and the fiscal year started on time in fiscal year 1977.

Also the deficit went down in that year. The debt continued to go up. But I want to discuss today the two mistakes that happened, both happened to have a representative, now Senator Gramm's name in front, Gramm-Rudman and Gramm-Latta.

But I thought I should first comment on Representative Panetta's bill because it is a pay-as-you-go system exempting social security and saying that any additional amounts require revenue offsets.

I have had some opportunity today that in the House and I have now been through a series of exercises doing that in the Senate and I can say that is painful and extraordinarily slow.

One of the reasons Senator Domenici and myself are running back and forth is we have the supplemental appropriation bill up at this time and that system will not work well because the offsets become another series of mirrors and smoke.

I think that Representative Panetta's bill is a little approach, but I think it is a marginal approach.

It would pick up about $18 billion and I think the freeze idea is one that everyone is talking about, so I have no objection to that, but I doubt that it is enough to operate at the margins with what we are facing, particularly with what has occurred in the Japanese stock market, the flow of European funds away from the United States toward the Eastern part of Europe, and the fact that we are going to not have the sources of capital to fund our debt as we have in the past; that is both the rollover and the new amount of debt accumulated by the deficits. I think that is the only reason the President has called for the summit.

I may be a little hard on him on that but I felt before that we could go to sequester feeling that the cuts in defense might not be important we might cut anyway, so why not just give her a ride.

What is concerning me with the budget freeze and the reductions ploys and the offset taxes is that it plays into the hands of the original Reagan-Stockman system which accepts budget reductions as the salient and in some cases the sole goal of the budget process. That is not why it was created.

It downplays the whole congressional constitutional duty and requirement to establish the Federal spending priorities in the original instances. As you can see, I have a very clear difference of opinion with Senator Domenici on where the administration sits or should sit in terms of the original budget that is created for the United States.

The administration can and should and does argue about priorities. They can veto spending bills but Federal spending should be set by the Congress and administered by the administration, an extraordinarily simple concept which was extraordinarily simply set forth in an extraordinarily simple document known as the Constitution of the United States.

This is very different from having the administration write the original budget and the Congress budget at the margins. That is my chief criticism of the Panetta bill.

I understand it may be necessary and I will support it if it comes over as a substitute for Gramm-Rudman. Gramm-Rudman was simply a mistake passed to correct the 1981 Gramm-Latta mistake. Budgets are political documents.

They are not accounting documents. And that will never be changed. The Congressional Budget Impoundment and Control Act of 1974, the so-called Budget Act that you are examining, was designed in theory—Representative Bolling did it—to give Congress back its budget creation powers that had been usurped by OMB and to allow it today more than marginal budgeting.

I am sure you will remember that—I do not know Representative Martin, if you were here at that time, but I know that Representative Derrick was—we used to take the Presidential document, the budget document, and add or subtract from the margins.

It was created by Democratic Presidents but it was a bad system just the same because it gave complete control over estimates, assumptions and everything else to the Budget Office, later called the OMB, and the end came from Nixon putting management into the system, so we were operating at the margins of a administration document.

I do not think we should go back to that. Now, in fact, why it passed was a very different thing than its theory.

It was passed because Nixon was using a line-item veto by impounding funds, so the tradeoff was that Nixon would be prevented from impounding funds using the recision type system and the Congress would have a budget system whereby it would know during the course of the year what it had done.

We never did know in the early 1970's, what we had budgeted spent or what the deficit was until March of the following year, because each bill passed separately, was cataloged separately and each bill had its effects that were never known or reported until the following year.

So the budget process then was created with two specific parts. It was conceived by first Representative Ullman and myself and it was implemented by Speaker Albert as an umbrella document with a first budget resolution.

That was congressional vision, the first budget resolution. It took the macro-economic issues of the day and addressed them and in the mid-1970's we were concerned with unemployment, inflation, and, yes, a growing Federal deficit which was causing a growing Federal debt which caused enormous debate politically in each of the bodies of Congress over the size of the debt.

All our argument used to be on the debt limit because it was the one bill that had to pass. The House became smart and included it in its regular document. We still have that in the Senate as what I think is a dangerous vehicle to be on the floor.

It counteracts what was happening in the 1970's the Budget Resolution of 1975 and 1976, supported increased Federal spending for public jobs and public works. Still the Federal deficit was kept in check and the U.S. Federal deficit headed down from more than $70 billion to $40 billion a year.

We felt we could carry about $26 billion, so we were still trying to go lower.

As I have noted the original budget act had two resolutions. The first is a planning tool for all committees.

The second budget resolution—and this is where I disagree with many of the people who talk about it today—the second budget resolution was the actual budget of the United States created after the authorizing and proposing committee bills were passed and signed.

The House Budget Committee did not concern itself in those days with programs below $500 billion in value in its first budget resolution. So the budget was a strategy not a tactical planning tool.

Too much of the budget work now goes into the areas of the proposing and the revenue committees and that was always their fear. That is the reason for the setup within the Budget Committee of certain Members from those committees as well as the authorizing committees, because it was recognized that the budget committee could back a force that overwhelmed the actual committees of the House and the Senate.

The way we did it was simply—we called all committee chairmen in, asked how much they expected to spend, told them how much of a deficit that would create, looked at the horror on their faces, and at the end of that period of time we got down to size of the budget.

In my opinion, what bollixed the system was the advent of the Reagan administration and its very bright young OMB Director, David Stockman. The fundamentals of the Reagan administration's fiscal program were very simple, a big tax cut, a big defense buildup, and a balanced budget.

While the specific domestic cuts to be made to achieve these goals were always considered to be there, they were hazy throughout the Reagan tenure.

Domestic cuts were assumed all along because that was the only way arithmetically it could work. In 1981 Stockman did his big gambit that would prevent the budget process, and it was done this way. The blueprint for the fiscal plan to establish specific targets and mechanisms was jammed. Stockman successfully pressed the Republican Senate to block the process so there were no resolutions to provide congressional budget.

As a prelude to major tax reductions he asked for and got a vote on a reconciliation bill making precise cuts in domestic programs before Congress considered its overall strategy. In this way Stockman writes, "The Senate Budget Committee was transformed into an item-by-item domestic budget cutting machine."

The big picture question of the effect of the tax cut and the defense buildup was postponed to another day.

We know the outcome of David Stockman's gamble and it became apparent to him that the political machinery was going awry, that in the absence of major budget cuts the U.S. Government would be saddled with budget deficits of $150 billion per year, and we are, and that is what we are dealing with in this room today.

Stockman hoped that these deficits would be the mother of political invention and to get politicians to turn against their own creation, the welfare state.

Gramm-Rudman was the result. Defense went up, taxes went down and Gramm-Rudman was a constant threat to the domestic programs, but the Congress won't give them up and still has not.

In the end Stockman repented for his system and wrote, "Our budget is now drastically out of balance. It is a consequence of an accident of governance which occurred in 1981. That it persists is due to the internal anti-tax position of the White House."

He further writes that the Gramm-Rudman-Hollings deficit reduction law stands as a testament to this web of folly. He says, "It is truly difficult to conceive of a more mischievous, unworkable blunderbuss than this alleged automatic budget cutting device."

As the budget process continued to evolve, it became more concerned with cross walking than with macro-economic issues.

In my opinion it began focusing on the trees rather than the forest. This destroyed independent congressional budgeting and allowed the budget and allowed the administration to set the budget parameters.

This has now evolved into budget symmetry and it is fundamentally at odds with the original intent of the Budget Act, which was signed to bring Congress back into its constitutional role of setting revenues and expenditures.

I want to talk about a couple of alternative concepts and then I will stop. I will show you what I did in 1977, so this is not something that I thought of last night.

I believe that any deficit reduction plan should incorporate an equitable and sustainable revenue plan in its basic framework. I will give you one example. For example, eliminating indexation would garner $5 billion in the first year of enactment and $10 billion to $11 billion each subsequent year.

By the fifth year this would result in additional Federal revenues of $42 billion annually, would provide a start toward deficit reduction and meeting pressing social needs.

Congress made a grave error in 1981 when it introduced indexation of the Tax Code. This is a form of tax reduction. It is not a tax increase to take away indexing. It is simply to remove a deduction. And repealing it would not be a revenue increase, so it would increase the revenues of the United States. We must not simply rely on pitting one committee against the other in order to reduce Federal spending.

This was the original plan of Reagan and Stockman, to cut domestic programs in order to increase defense spending and cut taxes. Those days are over. Another suggestion for the deficit reduction would be a freeze base as given in the Panetta bill, but using a series of small variable programmatic increases for good programs using the elimination of indexation of taxation and increased savings from a reduced defense program.

That proposal is basically what I suggested as part of the last budget resolution, which I produced when Budget chairman. It was in fiscal year 1977 and in schedule G which is in your records. I suggested we freeze new programs and let the growth in tax revenues both from growth in the economy and from lack of indexing balance the budget in 5 years.

A copy of this is attached to my statement. This was to prevent just using short-term goals. It eliminated gimmickry and it did do some things that Congressman Panetta's bill would do. But what it principally was directed toward doing was this: This was a 5-year projection showing a freeze of any new programs maintaining existing programs with COLAS where applicable and a balanced budget would have been achieved by fiscal year 1981 due to growth in the economy and the fact there was no indexing built into the Tax Code.

By October 1980, under five economic assumptions you would see a budget balance and surpluses beginning to appear without raising taxes. This schedule had no official standing. It was my idea of a political platform that President Carter could run on in 1980. I think you will notice certain similarities to the present proposal except at that time we had not accumulated a huge debt by cutting taxes while increasing defense spending.

For a similar system to work now would require we use a reduction of defense spending removal of such items as tax indexing and a careful balancing of new programs against old. This could eliminate the deficit and thereafter create a budget surplus to reduce the national debt so that our interest payments may be reduced.

Remember, the payment on interest at this point, the payment on interest at this point is greater than the entire Johnson budget in 1968 and it is larger than the entire domestic budget when I was Budget Chairman. There lies your problem.

Thank you for giving me the opportunity to testify. I would be happy to answer questions if you have any. I have not tried to tell you how I think the new thing should be constructed but I will say this—that if you start with a summit you will have reflected back into the congressional committees the parameters of what is already done and you will be acting only on marginal budget and that may be the way that you want to run the country for another 4 years, but at some point Congress should set a budget based on the President's proposal he sends up and both should agree on it by October at the end of the year.

Thank you, Mr. Chairman.

[Senator Adams' prepared statement follows:]

Statement of Senator Brock Adams
before
House Rules Committee
on
H.R. 3929, the Budget Process Reform Act of 1990
May 9, 1990

Mr. Chairman:

Thank you for having me before your subcommittee to discuss the proposed Budget Process Reform Act of 1990, H.R. 3929. I would like to first make some comments that are specific to this bill and then I would like to discuss some alternatives and budget process reform generally.

As you know, Mr. Panetta's bill repeals Gramm-Rudman-Hollings and replaces it with a pay-as-you-go system, exempting Social Security increases from this requirement. This would mean that for any program but Social Security, inflationary increases would have to be compensated for by cuts in some other program. It is estimated that this system would automatically reduce near-term annual deficits by about $18 billion.

H.R. 3929 would also require additional budgetary savings for fiscal years 1991 through 1993 and would ask for various reforms designed to increase the integrity of the budget process.

This is a logical, marginal, achievable approach, and I congratulate Chairman Panetta for his efforts. This freeze bill is a good approach, but I doubt it will be enough at the present time, even coupled with the current trend of holding summits with the Administration. This goes to the basic differences that I have with the Congress's accepting the Administration's basic budget agenda rather than using the Congressional process to create original budget figures and placing Congressional priorities against those of the Administration in a clear fashion early in the year. Going to a budget freeze and asking for a reduction plays into the hand of the original Reagan-Stockman system, which accepts deficit reduction as the salient goal of the budget process and downplays the Congress's Constitutional duty to establish federal spending priorities in the original instance. The Administration can argue about these priorities and they can veto spending bills but federal spending should be set by Congress and administered by the Administration.

This is very different than having the Administration write the original budget and having the Congress budget at the margins. The Panetta bill is designed in part to replace Gramm-Rudman and it may therefore be politically necessary to have such a deficit reduction plan in place, but it does cause the bill to be narrowly focused. In my opinion, Gramm-Rudman was a mistake passed to correct the 1981 Gramm-Latta mistake.

Budgets are political documents, and that will never be changed. The Congressional Budget and Impoundment Control Act of 1974 was designed in theory to give Congress back the budget creation powers that had been usurped by OMB and to allow it to do more than marginal budgeting using past years' experience and the Presidential budget documents.

As Chairman Derrick knows all too well, I was around when the Budget Act was drafted, and I was, in fact, the first Chairman of the House Budget Committee to put a Budget Resolution in place. At that time, myself and my predecessor, Al Uhlman, conceived of the Budget Resolution as an umbrella document containing a Congressional vision of the macroeconomic issues of the day and what might be done to address them. In the mid-1970s we were concerned with unemployment, inflation, and, yes, with a growing federal deficit. To counteract unemployment, the Budget Resolutions of 1975 and 1976 supported increased federal spending on public jobs and public works programs. Still, the federal deficit was kept in check. As the recession of the mid-1970's receded, the U.S. federal deficit headed down from more than $70 billion to about $40 billion a year.

As I have noted, in the original Budget Act, there were two Budget Resolutions in each year, with the first Budget Resolution being used as a planning tool for all committees, so they would know the level by which their bills would increase or decrease the deficit. The second Budget Resolution was the actual budget of the United States created after the authorizing and approriating bills were passed. The House Budget Committee did not concern itself with programs below $500 million in value, so as to make the budget a strategic --

not a tactical -- planning tool. The first Budget Resolutions were also carefully coordinated among Speaker Albert, myself and the committee chairmen early in March. The reconciliation bill was only intended to adjust bills to the final Budget Resolution and was not designed as a major budget bill on its own.

In my opinion, the thing that bollixed up the Congressional budgeting procedure more than anything else was the advent of the Reagan Administration and its bright young OMB director, David Stockman.

Stockman was an ideologue. He wanted to usher in an anti-statist revolution. The fundamentals of the Reagan Administration's fiscal program were to be a big tax cut, a defense build-up, and a balanced budget. While the specific domestic cuts to be made to achieve these goals were hazy throughout Reagan's tenure, domestic cuts were assumed all along.

In 1981, David Stockman decided to try a budget gambit that would pervert the budget process henceforth. In normal budgeting, Congress would come up with an overall blueprint for its fiscal plan, and then would establish the specific targets and mechanisms to get to that blueprint. By contrast, Stockman successfully pressed the Republican Senate to block the process so there were no resolutions to produce a Congressional budget. As a prelude to major tax reductions, he asked for and got a vote on a reconciliation bill making precise cuts in domestic programs before Congress considered its overall budget strategy. In this way, Stockman writes, the Senate Budget Committee was "transformed into an item-by-item domestic budget-cutting machine," and the big-picture question, of the effect of the tax cut and defense build-up, was postponed to another day.

We all know the outcome of Stockman's gamble. Early on it became apparent to David Stockman that the political machinery was going awry, and that in the absence of major budget cuts the United States government would be saddled with unending structural deficits of $150 billion a year. Stockman hoped that these deficits would be the mother of political invention, and would get politicians to turn against their own creation -- the welfare state Gramm-Rudman was the result. Defense went up, taxes went down and Gramm-Rudman was a constant threat to domestic programs (which Congress did not give up).

In the end, Stockman repented and wrote "our budget is now drastically out of balance... It is the consequence of an accident of governance which occurred in 1981. That it persists is due to the untenable anti-tax position of the White House." Stockman further writes that the Gramm-Rudman-Hollings deficit reduction law stands as a testament to this web of folly. He says, "It is truly difficult to conceive of a more mischievous, unworkable blunderbuss than this alleged automatic budget-cutting device."

As the budget process continued to evolve, committees became more concerned with cross-walking than with macroeconomic issues, and, in my opinion, began a process of focusing on the trees instead of the forest. This destroyed independent Congressional budgeting and allowed the Adminstration to set budget parameters. This has now evolved into budget summitry and is fundamentally at odds with the original intent of the Budget Act, which was designed to bring the Congress back into its Constitutional role of setting revenues and expenditures.

SOME ALTERNATIVE CONCEPTS

I believe that any deficit reduction plan should incorporate an equitable and sustainable revenue plan in its basic framework. Eliminating indexation could garner $5 billion in the first year of enactment, and $10 to $11 billion in each subsequent year. By the fifth year, this would result in additional federal revenues of $42 billion annually. This would provide a start toward deficit reduction and meeting pressing social needs. Congress made a grave error in 1981 when it introduced indexation into the tax code. This is a form of tax reduction each year, and repealing it would not be a revenue increase. We must not simply rely on pitting one committee against another for reduced federal funds. This was the original plan of Ronald Reagan and David Stockman to cut domestic programs in order to increase defense spending and cut taxes. Those days are over.

Another suggestion for deficit reduction would be to start with a freeze base, but use a series of small, variable programmatic increases for good programs using the elimination of indexation of taxation and increased savings from a reduced defense program.

This proposal is basically what I suggested as part of the last budget resolution produced when I was budget chairman. It was fiscal year 1977, and in Schedule G, I suggested that we freeze new programs and let the growth in tax receipts balance the budget in five years. A copy of this schedule is attached to my statement.

I support H.R. 3929's attempt to get Congress to focus on the longer-term implications of its policy choices. Requiring a five-year preview of the effect of a given policy would help to minimize federal fire sales in the name of reaching short-term goals and would highlight budget shenanigans like the "savings" achieved in reducing the capital gains tax rate.

I support the actions that Mr. Panetta's bill takes to try to eliminate gimmickry in both the Presidential and Congressional budgets. But at this time, with deep gulfs among various actors' budgetary desires, some smoke and mirrors will be needed to bring us through the political mire.

I applaud several of things that Chairman Panetta has tried to do in H.R. 3929. I do feel, however, that to develop a Congressional budget well, the Congress must somehow pull itself out of its current mode of counting pennies under OMB's direction and develop the architecture for a larger plan.

CONCLUSION

I have explained in my written statement the original budget system. The first Congressional Budget Resolution was designed to be an answer to the President's budget document. The second Budget Resolution was to be the Constitutional budget of the United States in place as a result of Congressionally passed and Presidentially signed laws that set revenues, spending, and a resulting surplus or deficit. It was reconciled by a reconciliation resolution in the narrow areas where it needed adjustment.

As I previously stated, I have attached to my statement Schedule G of the fiscal year 1977 budget resolution. This was a five-year projection showing a freeze of any new programs, maintaining existing programs with COLAs where applicable. A balanced budget would have been achieved by fiscal year 1981 due to growth in the economy and the fact that there was no indexing built into the tax code. By October of 1980, under five economic scenarios you would see the budget balanced and surpluses beginning to appear without raising taxes. This schedule had no official standing, but was my idea at the time of a political platform for President Carter to run on in 1980. I think you will notice certain similarities to the present proposal, except at the time we had not accumulated a huge debt by cutting taxes while increasing defense spending. For a similar system to work now it will require that we use a reduction of defense spending, the removal of such items as tax indexing, and a careful balancing of new programs against the old. This could eliminate the deficit and, thereafter create a budget surplus and reduce the national debt, so that our interest payments may be reduced.

Remember, the payment on interest at this point is greater than the entire Johnson budget for 1968.

Thank you again for giving me the opportunity to testify before your committee.

Chairman **Derrick**. Thank you Senator Adams. I have two questions I want to ask you. Since you mentioned something about the summit, apparently the President has either changed his mind or is about to change his mind or there is something going on about this "read my lips" business. Why do you think that we are getting to that point?

Do you think, as has been suggested, that the administration sees a recession or they expected a recession maybe about now, but they see the recession being put off probably with some proximity to the next Presidential election? I give the President more credit than that but these are some of the things that have been suggested.

Senator **Adams**. I think the "read my lips" came from their expectation they could slide through 1992 using the social security revenues which are going to amount to a billion dollars a week and there will be up to $5 billion in a short period of time and no recession and close to balanced budget, but small deficits they could slide by.

What has occurred is they have got a huge debt payment to make in terms of interest and they have an increasing amount of debt to fund so they have got both a role over to fund and they have got each deficit. We seem to always forget that, but the problem with the deficit is not the year. The problem is it adds to the debt which adds to the interest payment and it means that you have got to fund it.

The Japanese market just went down so the Japanese may not be as eager to buy our bonds. They have been funding about a quarter to a third of our extra debt. The Europeans have been funding it and the German Central Bank is now turning toward East Germany and the European sources are doing the same. So your level with where are you going to get the money to roll the big debt, add on this additional debt—you have the threat of Congress saying, well, we may put off your ability to use the social security revenues, which are enormous, and therefore smart minds are saying we better make a deal so that we can keep our interest rates down or else they are going to sky-rocket, because the Japanese are raising theirs.

The Germans are going to have to raise theirs to handle East Germany. They are going to compete for money on the market and our rates will have to go up in order to raise money for the debt. The junk bond market is gone so you do not have the financing of local businesses and initiatives through the junk bond market so that puts a pressure on money.

So, they have run out of money. That is what happens to every debtor that goes in debt every year and we have finally arrived close to the point where it is getting hard to get the money.

Chairman **Derrick**. Do you think we ought to do away with Gramm-Rudman?

Senator **Adams**. Absolutely.

Chairman **Derrick**. I am getting a little editorial comment. Do you think we ought to do away with the Budget Act? Do you think it is getting to the point it really serves no useful purpose? We have had a good bit of testimony before this committee, and there have been a number of people I think you would hold in very high esteem, academics as well as Members of Congress, who suggested the Budget Act needs to be done away with; that we need to go back basically the way we did it before 1974 and put the onus, if you will, on the administration to come forward with their budget; that all the Budget Act has done, together with Gramm-Rudman-Hollings, has encouraged the Congress to be dishonest with the American people.

Senator **ADAMS**. I wouldn't do away with it, but I would change its structure and importance greatly. You can't rely on the administration's budget any time, any place, it is a political document, it is a statement of what they want.

Chairman **DERRICK**. Ours is, too.

Senator **ADAMS**. Precisely. That was the second point I was going to make. The part of the Budget Act that should be kept is the strategic planning part of it, which tells you where you are going, and keeps track for you during the year of where you are, so you know how big or how little. The difference between our budget process and the administration's budget is ours is for real. By the time you get finished passing or not passing those bills, the deficit exists or doesn't exist, and you have got to know about that before March of the year following the year that you did it.

I would remove a lot of the strictures in it, where it is really doing the job of other committees and wasting an ungodly amount of time with points of order and double points of order and that kind of thing, but I think it is necessary for the Congress either to have one big appropriations bill, if you want to do that, and have one big set of entitlements, but one way or the other, you have got to keep track of what your cash flow spending is.

And so, the Budget Act as it now sits, I think a lot of it should be done away with, but I do think you should keep the first part of it so that the committees, both appropriating and authorizing, know where they are, and those in charge of oversight on entitlements know where they are.

Chairman **DERRICK**. Well, I think that what you are suggesting is that we turn the Budget Committee into an accounting office, primarily. I mean, I am sure that is an overstatement of what you mean, but you know I don't disagree with you.

Let me ask you one other question. I have always thought it would be worth consideration of eliminating the Appropriations Committee, eliminating the Ways and Means Committee, eliminating the Budget Committee, and putting it all together in a Finance Committee, and let them come up with a budget including the revenues, as well as the expenditures and everything, and bring it on the floor by a date certain, and let that take precedence over everything else that the Congress is dealing with, and they must deal with that and pass it.

Senator **ADAMS**. Historically, systems like that have been used.

Chairman **DERRICK**. Well, it makes sense to me, because you are dealing with the whole ball of wax at one time, and I think it would be a much more—it could be at least, a much more effective way of working some sort of pay as you go situation.

I might also add that not in my greatest imagination do I think that is going to happen.

Senator **ADAMS**. Well, the country started that way. Ways and Means originally was, and did just precisely what you say. There have been about four great budget developments in the course of U.S. history, so there is nothing sacred about the way we do it, and at one time, we had one big appropriations bill, instead of 13. That was about 1946.

In 1921, we had a system where we didn't have authorizing and appropriating committees, authorizing committees did do appropriating, so you could do it, and there is both precedent and history and results of whether it worked or not for what you suggest, and for several other things that are very similar.

Chairman DERRICK. Would you be interested in sponsoring that bill in the Senate, along with me in the House?

Senator ADAMS. Oh, I might look at something like that.

Chairman DERRICK. I am just teasing.

Mrs. Martin.

Mrs. MARTIN. I thank the gentleman for his historic perspective, although I do detect a tendency, if you come in the process at different points, you may view it differently. Some of the years you count as negatives, I count as positives.

I mean, I view what happened from 1977 to 1980 as might have been a great process in those few moments. Regrettably, the economy went in the trash can.

Senator ADAMS. We had a terrible time in 1977 to 1980, the Nation did.

Mrs. MARTIN. The point I am making, Senator, that is more important than quite how well a committee worked, what happened in the Nation.

Senator ADAMS. Absolutely, and that—that is the whole point of what I have tried to say today, is that in the 1970's, you were dealing with the oil crisis shutoff. You were dealing with coming out of a long recession, and what we shifted to in 1981 was a war economy without a war, and therefore, we got prosperity, and——

Mrs. MARTIN. Prosperity is no small thing. I, by the way, do disagree with some of your conclusions, but I think the historic perspective is useful. I am not as sure what worked in 1973 you can automatically transfer to 1993. We are talking about two different decades, and of change, but I think the historic perspective of the changes you are talking about are of extraordinary value to this committee, and I am grateful you brought them to us here.

Senator ADAMS. I know you are very bright on this subcommittee.

Mrs. MARTIN. I am barely adequate, but I try.

Senator ADAMS. I don't want to leave the impression with—we were still riding the roller-coaster in the 1970's up and down with the economy, and we have sustained prosperity. It was almost like running a war. What I meant was we have now built into this Nation a structural deficit.

Mrs. MARTIN. I did understand your point.

Senator ADAMS. And that is a very different thing to deal with, that is why I am willing to deal with changes in the budget process, because you are going to have every year $150 billion. You can vary the figures, but a huge, automatic deficit, your debt never stops going down, and you are leading to one thing, which is devaluation, or you monetize your debt or you do one of the terrible things that the third-rate or banana republics do.

Mrs. **Martin**. My only question is—you know, and I must tell you I disagree with your concept of the last thing that saves the working men and women, I think, is an indexation, so we disagree on that, but you know that is a perfectly legitimate disagreement.

You talked about the system, political documents, we certainly concur, and we talk about sort of overprocessing. Are you aware the chairman of the Ways and Means Committee was in here and his suggestion of a challenge involves mainly the safeguarded points of order, which is what you just said, multiple, triple points of order don't work, haven't worked, and do not work.

Senator **Adams**. I have a question whether this will work and the points of order are much overdone, and it is worse in the Senate than it is in the House.

Mrs. **Martin**. Don't tell me something like that.

Senator **Adams**. Oh, yes, because the problem is you can't get anything to move. You have no motion to proceed. You have no motion to cut off debate. You have no motion to do almost anything.

Mrs. **Martin**. So you would have to regrettably, respectfully question whether those points of order, as suggested by the chairman, Chairman Rostenkowski, would be valid or substantial challenges in whole.

Senator **Adams**. If I did it, I would do it only on the House side, because on the House side, you can get to a point of order. I went through a point of order in the Senate the other day on germaneness to a House bill, because you see, the House really is in control of the budget system, the fund-raising, and the spending.

It is technically done in the House constitutionally and is a matter of practically the way we do it. The Senate then adjusts these things, so you can do things, and you are set up to do things in the House both more efficiently and always first, so that you send to the Senate really a document almost like the President does, and therefore, the creation of that document, I think, is up to your Rules Committee, up to you all, and to the House as a whole, as to how you want to create that.

That is why, if you want to have points of order here, they are entirely different things than if you are using them on both sides.

Mrs. **Martin**. Thank you.

Chairman **Derrick**. Thank you, Mrs. Martin.

Mr. Wheat.

Mr. **Wheat**. Mr. Chairman, thank you for the opportunity.

Senator, I don't want to take but a few more minutes with you. Let me ask you just one general question. I note your somewhat intense opposition to Gramm-Rudman and appreciates many of the reasons for it in that it abrogates our responsibility to set national priorities, but looking at the Panetta plan, I am wondering how you see that as an improvement in our ability to affect some of the major problems that exist in the country that would not be addressed under any kind of automatic mechanism.

Senator **Adams**. I think it is marginal. I do not think it is the answer. It is a freeze plus variable change coming out of the top of it, whereas Gramm-Rudman operates in the opposite direction. That is the only difference, and that is what I indicated in my statement. I think it might help in that you would be going on the up side rather than the down side, and it is always easier to go up side than down side in the politics of both the House and the Senate.

But I do not think it is the ultimate solution to the structural deficit, no.

Mr. **Wheat**. Thank you very much, Senator.

Thank you, Mr. Chairman.

Senator **Adams**. Thank you very much, Mr. Chairman.

Chairman **Derrick**. Thank you. It was delightful to have you over. Thank you for your excellent testimony.

Without objection, the Chair wishes to place in the record the following statement of Representative Tauke of Iowa.

[The statement of Representative Thomas J. Tauke, as though read, follows:]

STATEMENT OF HON. THOMAS J. TAUKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. **Tauke**. Mr. Chairman, thank you for the opportunity to join my good friend and colleague, Senator Dan Coats of Indiana, to outline our support for legislation before your subcommittee, H.R. 3271, the Legislative Line Item Veto Act of 1989, which I commend to your attention.

If we are ever to restore fiscal sanity to our Nation, we must make Congress more accountable for its decisions to spend taxpayer dollars. A corporation is accountable to its stock holders, an employee is accountable to his or her employer, and so, my colleagues, must the Government of this Nation be accountable to those it governs.

I am here today to outline my support for our proposal which will increase this accountability to the American taxpayer. The Legislative Line Item Veto Act is a part of budgetary process reform which is long overdue. It will inject some fiscal discipline into a process that is badly in need of medical attention. This legislation will strengthen the Executive power of the President to control Federal spending. Specifically, it would enhance the President's ability to cancel unnecessary spending.

Under current law, the President may propose to Congress that previously appropriated budget authority be rescinded. But, a proposed rescission does not take effect unless Congress specifically approves it by joint resolution within 45 calendar days. Congress can simply ignore rescissions and kill these proposed savings by inaction—Congress' specialty.

This legislation would insert a new title into the Budget and Impoundment Act of 1974 to reverse this presumption and make inaction work to the benefit of budgetary savings. It would provide that proposed rescissions take effect unless specifically disapproved by Congress by joint resolution. The current veto by inaction would be replaced by a requirement that Congress step up to the plate and openly reject proposed savings, if that is its determination. In other words, it increases our accountability.

Since 1975, Congress has rejected more than $32 billion in proposed savings that three Presidents determined were necessary. In most years since the power existed, only a fraction of proposed Presidential rescissions have been granted.

The Budget and Impoundment Act of 1974 severely restricted Presidential authority over appropriated funds while establishing what most believed would be a budget process creating incentives for Congress to control fiscal policy. After more than a decade's experience, it is clear that spending money is still the main incentive in Congress. The time has come to re-establish a greater role for the President in the budget process. Under this legislation, Congress would still have the opportunity to reject a Presidential rescission if it insists on spending the funds in question. What Congress could not do is simply ignore the proposal and allow billions to be spent that our Nation's Chief Executive believe should be saved.

Mr. Chairman, I urge you and your colleagues to join Senator Coats and myself in supporting H.R. 3271, and I again appreciate the opportunity to be here today.

Chairman DERRICK. We are going to recess for a moment and go down and vote.

[A brief recess was taken.]

Chairman DERRICK. We will now hear from Mr. Tim Penny.

STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. I have written testimony I would ask be included in the record, as well as a copy of my legislation regarding pay-as-you-go budgeting, and my legislation addressing social security taxes, and a third bill I have introduced dealing with the calculation of the budget deficit, also relating to the social security surplus.

Mr. Chairman, I want to stress just a few key points. My judgment is that overspending at the Federal level is simply a product of human nature and the political process.

Chairman DERRICK. You said, "and the political process"?

Mr. PENNY. And the political process. I think one drives the other. It is human nature to resist restraints, and our political system at the national level does not reward restraint. We have interest groups at the national level that have absolutely no—no reason to keep an eye on the bottom line. And we have a committee process within Congress that equates political success and the accumulation of power with involving the Federal Government in more areas at greater expense.

That is the fundamental problem. So I don't know that there is any budget system that is going to solve this basic dilemma of human nature and political expediency. The Budget Resolution of 1974 was helpful at the beginning. But, as we have learned, it doesn't take long for people to figure out how to get around the system and to go back to their old habits.

So, the budget process eventually became a failure though it initially imposed some limitations on the conduct of the Congress.

Similarly, the Gramm-Rudman-Hollings legislation of the mid-1980's had us stymied for a while. But again, it didn't take us long to figure out how to work around the Gramm-Rudman-Hollings law. However, I would say in retrospect that it was better to have it than not to have it.

I am convinced deficits would be much larger today in the absence of that Gramm-Rudman sequestration threat. Nonetheless, the fact remains in the last 2 or 3 fiscal years, we have done little, if anything, to reduce the size of the Federal budget deficit.

And if you account for the social security surplus, we in fact have been moving in the wrong direction, and deficits have in fact been growing in the last few years.

Let me suggest that this issue is not as complicated as we pretend it to be. All the dates and the deadlines and definitions of what is in and out of the budget are really extraneous to the central issue. More often than not, the more complicated the budget process becomes, the easier it is for us to play games and to get around it.

I think that the clearest action that should be taken by Congress is a relatively simple action. That is to establish as firmly as possible a policy that will disallow us from spending one dime more in the new fiscal year than we have spent in the old fiscal year, no exceptions, period.

I am not fond of tax indexing. I am not fond of government spending indexation. Neither helps us to face honestly the budget and revenue choices that ought to be made if you are going to keep our accounts in some sort of balance.

I applaud Chairman Panetta's introduction of a pay-as-you-go bill. It is not as tough a pay-as-you-go plan as I would propose on my own, but it is encouraging to see someone higher in the leadership ladder step out on this issue. Pay-as-you-go simply suggests an across-the-board freeze at current levels as the best place to begin. Any increases in any account of the Federal Government must be justified either through the new revenues necessary to pay for those increases or cuts in less important programs.

This kind of a pay-as-you-go budget policy simply injects honesty into the budget process. We have not in the last decade or more had an honest debate about the Federal budget. The numbers are always fudged, the assumptions are often dishonest, and we have never, in a forthright manner, shared with the American public the dimensions of the problem that exists.

I think pay-as-you-go budgeting will force us to pit programs against one another. I disagree with the previous speaker, Senator Adams, who said that we ought not do that. That is fundamentally what we ought to do in Congress to pit programs against one another.

In the absence of that kind of compare and contrast, everything sounds good, everything looks good, everything is a priority. We can't afford to make everything a priority, and that is at the heart of the problem with the deficit spending at the national level.

We also, by freezing across the board, and justifying any increases by offsetting revenues or cuts in other areas, will allow the normal growth in our economy to generate the revenue necessary to help us eliminate the deficit.

No other approach that I am aware of gives us the benefit of that natural growth in the economy as well as the pay-as-you-go approach.

And finally, let me simply say a few words about social security and whether it ought to be on or off-budget. I think Senator Moynihan has done us a tremendous service by pointing out to the American public in a very graphic way the dishonesty in Federal budgeting.

When we passed the 1983 social security reforms, no one around here anticipated we were going to continue overspending in all other accounts of government. We honestly believed in 1983 that to the extent there was a surplus generated in the social security system due to these higher payroll taxes, it was going to be set aside in some fashion to pay future retirement benefits.

But the fact that social security was counted along with all the other revenue sources in the Federal Treasury has allowed us to easily and dishonestly spend this money on the day-to-day operation of the general government. Moynihan has blown the whistle. Whether we move social security off-budget and count all the other programs and revenues in the government separately; whether we apply the surplus to retiring the debt—which is maybe the best thing to do in terms of its effect on our economy—or whether we find some other way to deal with the social security question, I think it is part and parcel of a principle that restores honesty to the Federal budget system. In saying that I want to restore some protection for the social security surplus, I would not go so far as to say that we ought to exempt social security totally from all budget considerations.

I think even with the surplus protected, there are policy considerations involving indexation of social security benefits and retirement age questions, that we should not run away from. Because we must bite the bullet and make some decisions about those issues in the 1990's. When the baby-boomers retire in the twenties and thirties of the next century, it will be too late to make those decisions. Consequently the next generation of workers will be burdened with higher taxes as a result of our inattention to these issues today.

In judgment, it is as simple as that. We can quibble all day long about dates and deadlines and assumptions and all the rest, but to me, those details are less important than an overall principle of how we go about budgeting at the national level. Fundamentally, there is no better way to proceed than to stop spending more, unless we know where the money is coming from.

Thank you, Mr. Chairman.

[Mr. Penny's prepared statement, with attachments, follows:]

Prepared Statement of Hon. Timothy J. Penny, a Representative in Congress From the State of Minnesota

Since passage of the Gramm-Rudman deficit reduction law in 1985 and the subsequent rewrite of that law in 1987, a great deal of focus has fallen on deficit reduction—and rightly so, in my view. Unfortunately, Mr. Chairman and members, the deficit in the operating budget has stayed very much the same: for fiscal year 1987, the deficit was $149.69 billion; in fiscal year 1988, the deficit actually increased to $155.15 billion; last fiscal year, 1989, the deficit was $152.08 billion; recently, the Congressional Budget Office [CBO] estimated the current year, 1990, deficit to be near $140 billion and significantly on the increase. Furthermore, if you take away the social security tax receipts, the deficit in the rest of the budget has actually increased significantly. For fiscal year 1990, for example, CBO projects the deficit to be in excess of $204 billion if social security tax payments are not counted.

Fundamentally as a government, we have failed to make the tough choices necessary to reduce the overall deficit. As I see it, we can make tough choices now, or tougher choices later. Just this morning, The *Washington Post* reported the Joint Economic Committee is projecting that $111 billion will need to be cut this next fiscal year, 1991, to stay with the Gramm-Rudman guidelines, an increase of nearly $75 billion over the Office of Management and Budget's earlier projection.

Cuts of that magnitude require a significant plan of deficit reduction, much like the one outlined by Chairman Rostenkowski, which I endorse. For my own part, I have long-advocated a package of deficit reduction that avoids gimmicks like asset sales and funny-money budgeting for a budget authority freeze, entitlement reform, and revenue increases.

I also want to express my support for legislation to reform the budget treatment of social security. As you may know, I am the author of legislation, similar to Senator Pat Moynihan's that would rescind the social security [FICA] tax increase that went into effect January 1 and to further reduce the FICA tax in 1991 to 5.1 percent on individuals and employers. While this committee does not have jurisdiction over this matter, I urge you to express support in your deliberations to protect social security.

It is clear that the administration intends to continue to allow social security revenues to mask the deficit and further use the social security payroll tax as a continuing source of funds for the general budget. Senator Moynihan's proposal forces the administration and Congress to be honest about the deficit, and to talk about how to set national priorities and get to a balanced budget. And to me, that is the real significance of his legislation. I am well aware that reducing the payroll tax now would be a "mixed bag." A tax break would put money into the hands of working men and women and that might stimulate the economy to some degree. But it might not be enough to offset the effect on the economy of increased Government borrowing.

I strongly feel that any reduction in the FICA tax should not be done in isolation of the big picture; that being a more fiscally responsible treatment of the rest of the budget. In fact, if we would be honest about the need for cuts and revenues in order to balance the rest of the budget, the original promise that social security funds would be protected for future retirees would be met, and the reduction in the payroll tax would be less imperative.

As we have heard many times in the past few months, reducing the payroll tax is a dramatic and controversial step. But I believe the proposal may finally bring us to our senses about the deficit. There are many options available to achieve deficit reduction.

For example, I would also strongly support legislation to exclude social security receipts from the deficit calculation. I have introduced legislation (H.R. 3323) to achieve this goal. I know this off-budget approach has support among members of this committee, and I would urge you to push—as I will—to move to unmask the deficit by whatever means available.

But Mr. Chairman, before we can make these bold strokes, it is absolutely necessary to reform the budget process.

I was pleased to recently join Budget Committee Chairman Leon Panetta in cosponsoring legislation, H.R. 3929, to establish a pay-as-you-go budget process. In my view, this proposal is long overdue, and worthy of debate and passage by the Congress.

Pay-as-you-go budgeting is a concept I have long supported. In fact, I have introduced legislation in the last two Congresses to implement a pay-as-you-go budget process. The power of pay-as-you-go is that it will bring about significant deficit reduction and force the President and the Congress to establish budget priorities and live by those priorities.

Chairman Panetta's legislation, like my own, simply requires that except for demographic changes and social security payments, all other programs, projects and activities in the budget would be frozen. If either the Congress or the President desired to increase funding in these programs, they would have to propose corresponding reductions in other programs or tax increases to offset the additional spending. By definition, a pay-as-you-go budget process demands that priorities be established in the budget resolution and that the Congress live by those priorities.

By freezing spending in most programs and requiring new spending be offset by budget cuts elsewhere in the budget or by tax increases, the President and the Congress will no longer be able to hide behind inflated economic assumptions and hope for the best. Keep in mind that we are faced with a budget target for fiscal year 1991 of $64 billion, $74 billion if we use the $10 billion fudge factor in the Gramm-Rudman law. If the CBO projections were to be adopted this year—and they are not likely to be adopted since the administration's economic projections are operative for Gramm-Rudman purposes—spending in fiscal year 1991 would have to be reduced by nearly $85 billion, by recent re-estimates.

With an agreement to limit spending and raise some revenues, we might be able to reach that number, but given our current budget deadlock and the unwillingness of the administration to face up to the budget deficit, it seems unlikely that spending will be reduced by $85 billion this year. While our annual budget savings may be slightly smaller under the legislation we are cosponsoring, the budget cuts are more likely to be real and more likely to produce significant multiyear savings. By moving to a pay-as-you-go budget process, however, economic assumptions take a backseat to deficit reduction. Under Chairman Panetta's legislation or my own, "expenditure discipline" will be the order of the day.

Mr. Chairman, I strongly urge this committee to be bold in its approach to budget process reform this year. The American people are ready for bold strokes, be they program reforms, new revenues, or fully funding existing programs that have proven their worthiness. I hope we will not quickly pass up another opportunity to take some bold, innovative steps. I ask that supporting materials be included with this statement.

[The information referred to follows:]

I

101st CONGRESS
1st Session

H. R. 1262

To amend the congressional budget process to provide for a pay-as-you-go budget for the United States, to provide for a biennial budget for the United States, and to provide line item veto authority for the President, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

March 2, 1989

Mr. Penny (for himself, Mr. Frenzel, Mr. Robinson, Mr. Lewis of Florida, Mr. Dorgan of North Dakota, Mr. Owens of Utah, and Mr. Stenholm) introduced the following bill; which was referred jointly to the Committees on Government Operations and Rules

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A BILL

To amend the congressional budget process to provide for a pay-as-you-go budget for the United States, to provide for a biennial budget for the United States, and to provide line item veto authority for the President, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—PAY-AS-YOU-GO BUDGET

SECTION 101. SHORT TITLE.

This title may be cited as the "Budget Reform Act of 1989".

SEC. 102. POINT OF ORDER.

(a) GENERAL RULE.—

(1) Notwithstanding any other provision of law, and except as provided in paragraph (2), it shall not be in order in the Senate or the House of Representatives to consider any concurrent resolution on the budget for any fiscal year beginning after September 30, 1989, or any amendment thereto, or any conference report thereon, if—

(A) the adoption of such concurrent resolution as reported;

(B) the adoption of such amendment; or

(C) the adoption of the concurrent resolution in the form recommended in such conference report,

would cause—

(i) the appropriate level of total budget outlays set forth in such concurrent resolution for such fiscal year to exceed the appropriate level of total budget outlays set forth for the preceding fiscal year in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year; or

(ii) the recommended level of Federal revenues set forth in such concurrent resolution for such fiscal year to be less than the recommended level of Federal revenues for the preceding fiscal year set forth in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year.

(2) Notwithstanding paragraph (1), a concurrent resolution on the budget for a fiscal year may—

(A) provide for an amount of budget outlays for such fiscal year in excess of the appropriate level of total budget outlays for the preceding fiscal year set forth in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year if the concurrent resolution on the budget for such fiscal year also—

(i) provides for an amount of revenues for such fiscal year (in addition to an amount of revenues equal to the recommended level of Federal revenues for the preceding fiscal year set forth in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year) that is not less than such amount of excess budget outlays; and

(ii) identifies the source of such additional amount of revenues and proposes changes in law to achieve such additional amount of revenues; or

(B) provide for a reduction in the recommended level of Federal revenues for such fiscal year below the recommended level of Federal revenues for the preceding fiscal year set forth in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year if the concurrent resolution on the budget for such fiscal year also—

(i) provides for a reduction in budget outlays for such fiscal year below the appropriate level of total budget outlays for the preceding fiscal year set forth in the most recently agreed to concurrent resolution on the budget for that preceding fiscal year, in an amount not less than the amount of the reduction in revenues for such fiscal year; and

(ii) identifies the program or activity in which such reduction in budget outlays is to be made and proposes changes in law to accomplish such reduction in budget outlays.

(3) Any additional amount of revenues contained in a concurrent resolution on the budget pursuant to paragraph (2)(A)(i) shall only include additional revenues which will result from proposed changes in law. Any reduction in budget outlays contained in a concur-

rent resolution on the budget pursuant to paragraph (2)(B)(i) shall only include reductions in budget outlays which will result from proposed changes in law.

(b) WAIVER.—Subsection (a) may be waived by a two-thirds vote of the Members of each House of Congress, duly chosen and sworn.

(c) PURPOSE OF EXCESS REVENUES.—Notwithstanding any other provision of law, it shall not be in order in the Senate or the House of Representatives to consider a concurrent resolution on the budget for a fiscal year that sets forth a recommended level of revenues for such fiscal year in excess of the appropriate level of total budget outlays for such fiscal year, unless such concurrent resolution specifies the purposes for which such excess revenues are to be allocated.

SEC. 103. PRESIDENT'S BUDGET.

(a) GENERAL RULE.—Notwithstanding any other provision of law and except as provided in subsection (b), the budget transmitted pursuant to section 1105(a) of title 31, United States Code, for the following fiscal year shall not contain—

(1) an estimate of total budget outlays for such following fiscal year which exceeds the appropriate level of total budget outlays for the fiscal year in progress set forth in the most recently agreed to con-

current resolution on the budget for the fiscal year in progress; or

(2) an estimate of total revenues for such following fiscal year which is less than the recommended level of revenues for the fiscal year in progress set forth in the most recently agreed to concurrent resolution on the budget for the fiscal year in progress.

(b) EXCEPTION.—Notwithstanding subsection (a), the budget transmitted pursuant to section 1105(a) of title 31, United States Code, for the following fiscal year may—

(1) contain an estimate of budget outlays for such following fiscal year in excess of the appropriate level of total budget outlays for the fiscal year in progress set forth in the most recently agreed to concurrent resolution on the budget for the fiscal year in progress if the budget also—

(A) contains an estimate of revenues for such following fiscal year (in addition to an amount of revenues equal to the recommended level of Federal revenues for the fiscal year in progress set forth in the most recently agreed to concurrent resolution on the budget for the fiscal year in progress) that is not less than the amount of such excess budget outlays; and

(B) identifies the source of such additional estimated revenues and proposes changes in law to achieve such additional estimated revenues; or

(2) contain an estimate of a reduction in revenues for such following fiscal year below the recommended level of Federal revenues for the fiscal year in progress set forth in the most recently agreed to concurrent resolution on the budget for the fiscal year in progress if such budget also—

(A) contains an estimate of a reduction in budget outlays for the following fiscal year below the appropriate level of total budget outlays for the fiscal year in progress set forth in the most recently agreed to concurrent resolution on the budget for the fiscal year in progress, in an amount not less than the amount of the reduction in revenues for such following fiscal year; and

(B) identifies the program or activity for which such estimated reduction in budget outlays is proposed and proposes changes in law to achieve such estimated reduction in budget outlays.

(c) REVENUE ESTIMATION.—Any additional estimated revenues that, pursuant to subsection (b)(1)(A), are contained in the budget transmitted pursuant to section 1105(a) of title

31, United States Code, shall only include additional estimated revenues that will result from proposed changes in law. Any estimated reductions in budget outlays, that, pursuant to subsection (b)(2)(A), are contained in any such budget shall only include estimated reductions in budget outlays that will result from proposed changes in law.

SEC. 104. DEFINITIONS.

For purposes of this title—

(1) the term "budget outlays" has the meaning given to such term in section 3(1) of the Congressional Budget and Impoundment Control Act of 1974; and

(2) the term "concurrent resolution on the budget" has the same meaning as in section 3(4) of such Act.

SEC. 105. RULEMAKING POWER.

(a) The provisions of sections 102 and 104 of this title are enacted by the Congress—

(1) as an exercise of the rulemaking power of the House of Representatives and the Senate, respectively, and as such they shall be considered as part of the rules of each House, respectively, or of that House to which they specifically apply, and such rules shall supersede other rules only to the extent that they are inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change such rules (so far as relating to such House) at any time, in the same manner, and to the same extent as in the case of any other rule of such House.

TITLE II—BIENNIAL BUDGET

SEC. 201. SHORT TITLE.

This title may be cited as the "Biennial Budgeting Act of 1989".

SEC. 202. FINDINGS AND PURPOSE.

(a) FINDINGS.—The Congress hereby finds and declares that the present annual budgeting process of the Congress—

(1) allows too little time for the fulfillment by the Congress of its legislative oversight responsibilities;

(2) allows too little time for the review and consideration by the Congress of authorizing legislation, of budget resolutions, and of appropriation bills; and

(3) allows too little time for the evaluation of costly and complicated Federal programs and consequently contributes to the unrestrained growth of the Federal budget.

(b) PURPOSE.—It is the purpose and intent of the Congress in this title to establish a more thorough and timely process for the enactment of the Federal budget by—

(1) establishing a two-year cycle for the adoption of the budget;

(2) providing clearly allocated time for the holding of oversight hearings by the several committees of each House in order to review the various programs and agencies of the Federal Government; and

(3) requiring that consideration of authorizing legislation, of the budget, and of appropriation bills and resolutions be separate and distinct, thus allowing full evaluation of the need for and the merits and costs of the various programs and agencies of the Federal Government.

SEC. 203. ESTABLISHMENT OF TWO-YEAR CYCLE FOR CONGRESSIONAL BUDGET PROCESS.

Section 300 of the Congressional Budget Act of 1974 is amended to read as follows:

"TIMETABLE

"SEC. 300. The timetable with respect to the congressional budget process for any Congress (beginning with the one-hundred and second Congress) is as follows:

"First Session

"On or before:	Action to be completed:
January 3	President submits current services budget.
15th day after Congress meets	President submits his budget for 2-fiscal-year period beginning in succeeding calendar year (the '2-fiscal-year budget period'). All committees begin over-sight hearings with respect to 2-fiscal-year budget period.
June 30	Committees complete over-sight hearings and submit their reports thereon.

"First Session—Continued

July 1	All committees begin legislative work for 2-year budget period.
October 31	Committees and joint committees submit reports to Budget Committee with respect to 2-fiscal-year budget period.
November 10	Congressional Budget Office submits report to Budget Committees with respect to 2-fiscal-year budget period.
November 30	Budget Committees in both Houses report first con-current resolution on budget for 2-fiscal-year budget period.
December 31	Committees report bills and resolutions authorizing new budget authority and providing new spending authority for 2-fiscal-year budget period.

"Second Session

"On or before:	Action to be completed:
January 3	President submits current services budget.
15th day after Congress meets	President submits revised budget for 2-fiscal-year budget period.
March 10	Congress completes action on bills and resolutions authorizing new budget authority and providing new spending authority for 2-fiscal-year budget period.
March 31	Congress completes action on concurrent resolution on budget for 2-fiscal-year budget period.
April 15	Appropriations Committee reports bills and resolutions providing new budget authority for 2-fiscal-year budget period.
7th day after Labor Day	Congress completes action on bills and resolutions providing new budget authority and new entitlement authority for 2-fiscal-year budget period.
September 25	Congress completes action on reconciliation bill or resolution, or both, implementing concurrent resolution.
October 1	2-fiscal-year budget period begins.".

SEC. 204. OVERSIGHT ACTIVITIES.

(a) OVERSIGHT ACTIVITIES.—Title III of the Congressional Budget Act of 1974 is amended by adding at the end thereof the following new section:

"OVERSIGHT ACTIVITIES OF COMMITTEES

"SEC. 312. During the period beginning on the 15th day after the Congress meets in each odd-numbered year and ending June 30 of such year, each standing committee of the House of Representatives and the Senate shall review and study the application, administration, execution, and effectiveness of those laws (or parts of laws) the subject matter of which is within the jurisdiction of that committee and the organization and operation of the Federal agencies and entities having responsibilities in or for the administration and execution thereof, in order to determine whether such laws and the programs thereunder are being implemented and carried out in accordance with the intent of the Congress and whether such programs should be continued, curtailed, or eliminated. In addition, each such committee (during such period) shall review and study any conditions or circumstances which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of that committee (whether or not any bill or resolution has been introduced with respect thereto). The findings and determinations made by each such committee as a result of its oversight activities under the preceding provisions of this section in any year shall be reported to the House of Representatives or the Senate no later than June 30 of such year, and shall constitute the basis for such committee's legislative work with respect to the 2-fiscal-year budget period beginning on October 1 in the succeeding year.".

(b) CONFORMING AMENDMENT.—The table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended by adding after the item relating to section 311 the following new item:

"Sec. 312. Oversight activities of committees.".

SEC. 205. CONFORMING AMENDMENTS TO CONGRESSIONAL BUDGET ACT.

(a) Section 2(2) of the Congressional Budget and Impoundment Control Act of 1974 is amended by striking out "each year" and inserting in lieu thereof "biennially".

(b) Section 3 of such Act is amended by adding at the end thereof the following new paragraph:

"(11) The term '2-fiscal-year budget period' means the period of 2 complete fiscal years beginning on October 1 in any even-numbered year.".

(c)(1) Section 202(f)(1) of such Act is amended—

(A) by striking out "February 15 of each year" and inserting in lieu thereof "November 10 of each odd-numbered year"; and

(B) by striking out "October 1 of that year" and inserting in lieu thereof "October 1 of the succeeding year".

(2) Section 202(f)(3) of such Act is amended to read as follows:

"(3) On or before January 15 of each even-numbered year, the Director, after consultation with the appropriate committees of the House of Representatives and Senate, shall submit to the Congress a report listing (A) all programs and activities funded during the 2-fiscal-year budget period ending September 30 of that calendar year for which authorizations for appropriations have not been enacted for that period, and (B) all programs and activities for which authorizations for appropriations have been enacted for such period, but for which no authorizations for appropriations have been enacted for the 2-fiscal-year budget period beginning October 1 of that calendar year.".

(d)(1) Section 301(a) of such Act is amended by striking out "April 15 of each year" in the first sentence and inserting in lieu thereof "March 31 of each even-numbered year".

(2) Section 301(d) of such Act is amended by striking out "February 25 of each year" and inserting in lieu thereof "October 31 of each odd-numbered year".

(3) Section 301(e) of such Act is amended—

(A) by striking out "fiscal year" in the first sentence and inserting in lieu thereof "2-fiscal-year budget period"; and

(B) by striking out "such fiscal year" and "such period" in paragraph (6) and inserting in lieu thereof "the first fiscal year of such 2-fiscal-year budget period" and "such 5-year period", respectively.

(e)(1) Section 307 of such Act is amended to read as follows:

"APPROPRIATION BILLS

"(a) Except as provided in subsection (b), all bills and resolutions containing appropriations or otherwise providing budget authority for any 2-fiscal-year budget period shall be reported in the House of Representatives and Senate no later than April 15 of the year in which such period begins.

"(b) If the Committee on Appropriations of the House of Representatives or the Senate determines that changes in circumstances with the passage of time require a waiver of subsection (a) with respect to any bill or resolution providing supplemental appropriations or otherwise providing budget authority for any period, such committee may report, and the House or Senate may consider and adopt, a resolution waiving the application of such subsection in the case of such bill or resolution.".

(2) The table of contents in section 1(b) of such Act is amended by striking out "all appropriation bills to be completed by June 10" in the item relating to section 307 and inserting in lieu thereof "appropriation bills".

(f) Section 308 of such Act is amended—

(1) by striking out "such fiscal year" in paragraph (1)(A) of subsection (a) and inserting in lieu thereof "such 2-fiscal-year budget period"; and

(2) by striking out "such fiscal year" and "such period" (each place it appears) in subsection (c) and inserting in lieu thereof "the first fiscal year of such 2-fiscal-year budget period" and "such 5-year period", respectively.

(g) Section 309 of such Act is amended by inserting "of each even-numbered year" after "July" and by striking out "annual".

(h) Section 310 of such Act is amended—

(1) by striking out "June 15 of each year" in subsection (f)(1) and inserting in lieu thereof "September 25 of each even-numbered year";

(2) by striking out "(1) IN GENERAL.—" in subsection (f)(1); and

(3) by striking out paragraph (2) of such subsection (f).

(i) Section 401(b)(1) of such Act is amended by striking out "the fiscal year which begins during the calendar year in which" and inserting in lieu thereof "the first 2-fiscal-year budget period which begins after".

(j)(1) Section 402 of such Act is amended—

(A) in the heading by inserting "; REQUIRED REPORTING DATE" after "AUTHORITY"; and

(B) by adding at the end thereof the following new subsection:

"(b) REQUIRED REPORTING DATE.—The Congress shall complete action on all bills and resolutions directly or indirectly authorizing the enactment of new budget authority for a 2-fiscal-year budget period no later than March 10 preceding the beginning of such period.".

(2) The table of contents in section 1(b) of such Act is amended in the item relating to section 402 by inserting "; required reporting date" after "authority".

(k) Section 904(a) of such Act is amended by inserting "(as enacted or as amended by the Biennial Budgeting Act of 1989)" after "and IV" in the matter preceding paragraph (1).

(l) The following sections of such Act are amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "2-fiscal-year budget period": 3(1); (4)(A), (4)(B), and (4)(C); 202(f)(1); 301(a)(1), (b)(3), and (d) (first sentence); 302(c) and (f); 303(a)(1), (a)(2), (a)(3), (a)(4), (a)(5), (b); 304(a); 307(a); 308(a)(1) (before subparagraph (A)), (a)(1)(A), (b)(1), and (c); 309 (first sentence); 310(a) (first sentence), (a)(1)(A), (a)(1)(C), (a)(1)(D), (d), and (f); 311(a), (b), and (c); 401(a) and (b)(2); and 402(a).

(m) The following sections of such Act are amended by striking out "such year" each place it appears and inserting in lieu thereof "such period": 3(1); and 303(a) (after paragraph (5)).

SEC. 206. AMENDMENTS TO BUDGET PROCESS PROVISIONS OF TITLE 31 OF THE UNITED STATES CODE.

(a) So much of section 1105(a) of title 31 of the United States Code as precedes paragraph (1) thereof is amended to read as follows:

"(a) The President shall transmit to the Congress, during the first 15 days of the first session of each Congress beginning with the One-hundred and first Congress the budget for the 2-fiscal-year budget period (as defined in paragraph (11) of section 3 of the Congressional Budget Act of 1974) beginning on October 1 of the succeeding calendar year. The budget so transmitted shall include a tentative budget for each of the two fiscal years in such period, shall contain the President's budget message together with summary data and text and supporting detail, and shall set forth in such form and detail as the President may determine (with respect to each such fiscal year) the following:".

(b) Section 1105(a)(5) of title 31 of the United States Code is amended by striking out "the fiscal year for which the budget is submitted and the 4 fiscal years after that year" and inserting in lieu thereof "each such fiscal year and the 3 fiscal years after the second such year".

(c) Section 1105(a)(6) of title 31 of the United States Code is amended by striking out "the fiscal year for which the budget is submitted and the 4 fiscal years after that year" and inserting in lieu thereof "each such fiscal year and the 3 fiscal years after the second year".

(d) Section 1105(a)(9) of title 31 of the United States Code is amended by striking out "ensuing fiscal year for which the budget is submitted" and inserting in lieu thereof "2-fiscal-year budget period involved".

(e) Section 1105(a)(12) of title 31 of the United States Code is amended—

(1) by striking out "fiscal year" in subparagraph (A) and inserting in lieu thereof "2-fiscal-year budget period"; and

(2) by striking out "each of the 4 fiscal years after that year" and inserting in lieu thereof "each of the 3 fiscal years after such period".

(f) Section 1105(a)(13) of title 31 of the United States Code is amended by striking out "fiscal year" and inserting in lieu thereof "2-fiscal-year budget period".

(g) Section 1105(a)(14) of title 31 of the United States Code is amended by striking out "that year" and inserting in lieu thereof "the 2-fiscal-year budget period".

(h) Section 1105(a) of title 31 of the United States Code is further amended by adding at the end thereof (after and below paragraph (26)) the following new sentences: "During the first 15 days of the second session of each such Congress the President shall transmit to the Congress any revisions he may desire to make in the budget transmitted in the first session of that Congress. In applying the succeeding provisions of this section with respect to any budget transmitted to the Congress for a 2-fiscal-year budget period, the term 'ensuing fiscal year' shall be deemed to read 'first year of the 2-fiscal-year budget period involved', and other references to fiscal years shall be deemed to be references to the 2-fiscal-year budget periods in which the years involved respectively fall.".

SEC. 207. EFFECTIVE DATE.

Except as specifically otherwise indicated, the amendments made by this title shall become effective on the first day of the first session of the One-hundred and second Congress.

TITLE III—LINE ITEM VETO

SEC. 301. LINE ITEM VETO.

The President may disapprove any item of appropriation in any Act or joint resolution, except any item of appropriation for the legislative branch or the judicial branch of the Government. If an Act or joint resolution is approved by the President, any item of appropriation contained therein which is not disapproved shall become law. The President shall return with his objections any item of appropriation disapproved to the House of Congress in which the Act or joint resolution containing such item originated. The Congress may, in the manner prescribed under section 7 of article I of the Constitution for Acts disapproved by the President, reconsider any item of appropriation disapproved under this Act. If, after such reconsideration each House of Congress shall agree to pass such item by a simple majority of that House, it shall become law.

SEC. 302. EFFECTIVENESS OF ACT.

This title shall be effective only during the 2-year period beginning on the first day beginning after the date of the enactment of this Act.

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101st CONGRESS
2d Session

H. R. 3865

To amend the Internal Revenue Code of 1986 to repeal the 1990 scheduled increase in social security taxes and to reduce such taxes in 1991.

IN THE HOUSE OF REPRESENTATIVES

January 23, 1990

Mr. Penny (for himself and Mr. Thomas A. Luken) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the Internal Revenue Code of 1986 to repeal the 1990 scheduled increase in social security taxes and to reduce such taxes in 1991.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. REPEAL OF SCHEDULED INCREASE IN SOCIAL SECURITY TAXES; REDUCTION OF TAXES IN 1991.

(a) Tax on Employees.—Subsection (a) of section 3101 of the Internal Revenue Code of 1986 (relating to tax on employees) is amended by striking the last 2 items in the table and inserting the following:

"1988, 1989, or 1990	6.06 percent
"1991 or thereafter	5.10 percent."

(b) TAX ON EMPLOYERS.—Subsection (a) of section 3111 of such Code (relating to tax on employers) is amended by striking the last 2 items in the table and inserting the following:

"1988, 1989, or 1990	6.06 percent
"1991 or thereafter	5.10 percent."

(c) SELF-EMPLOYMENT TAX.—Subsection (a) of section 1401 of such Code (relating to self-employment tax) is amended by striking the last 2 items in the table and inserting the following:

"December 31, 1987	January 1, 1991	12.12
"December 31, 1990		10.20."

(d) TIER 1 RAILROAD RETIREMENT TAX ON EMPLOYEES.—Subsection (a) of section 3201 of such Code (relating to tier 1 railroad retirement tax on employees) is amended by striking the last 2 items in the table and inserting the following:

"1988, 1989, or 1990	7.51
"1991 or thereafter	6.55."

(e) TIER 1 RAILROAD RETIREMENT TAX ON EMPLOYEE REPRESENTATIVES.—Subsection (a) of section 3211 of such Code (relating to tier 1 railroad retirement tax on employee representatives) is amended by striking the last 2 items in the table and inserting the following:

"1988, 1989, or 1990	15.02
"1991 or thereafter	13.10."

(f) TIER 1 RAILROAD RETIREMENT TAX ON EMPLOYERS.—Subsection (a) of section 3221 of such Code (relating to tier 1 railroad retirement tax on employers) is amended by striking the last 2 items in the table and inserting the following:

"1988, 1989, or 1990	7.51
"1991 or thereafter	6.55."

(g) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall apply to remuneration paid after December 31, 1989.

(2) SELF-EMPLOYMENT TAX.—The amendment made by subsection (c) shall apply to taxable years beginning after December 31, 1989.

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101st CONGRESS
1st Session

H. R. 3323

To amend the Congressional Budget and Impoundment Control Act of 1974 to exclude the receipts and disbursements of the social security trust funds from the deficit calculation and to extend the target date for the Balanced Budget and Emergency Deficit Control Act of 1985, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

September 21, 1989

Mr. Penny (for himself, Mr. Bates and Mr. Olin), introduced the following bill; which was referred jointly to the Committees on Government Operations and Ways and Means

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A BILL

To amend the Congressional Budget and Impoundment Control Act of 1974 to exclude the receipts and disbursements of the social security trust funds from the deficit calculation and to extend the target date for the Balanced Budget and Emergency Deficit Control Act of 1985, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Budget Act Amendments of 1989".

SEC. 2. PERMANENT EXTENSION OF BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985; ELIMINATION OF EXEMPTIONS.

(a) Permanent Extension.—

(1) Section 275(b) of the Balanced Budget and Emergency Deficit Control Act of 1985 (hereinafter in this section referred to as the “Act”) is repealed.

(2)(A) Paragraphs (1) and (2) of section 251(a)(1) of the Act is amended by inserting “or any subsequent fiscal year” after “1993” each place it appears.

(B) Section 251(a)(3)(A)(i)(III) of the Act is amended by inserting “or any subsequent fiscal year,” after “1993”.

(C) The side heading of section 252(a)(6)(B) of the Act is amended by striking “FISCAL YEARS 1989–1993” and by inserting SUBSEQUENT FISCAL YEARS”.

(D) The side heading of section 252(a)(7) of the Act is amended by striking “FISCAL YEARS 1987–1993” and by inserting SUBSEQUENT FISCAL YEARS”.

(E) Section 257 of the Act is amended in paragraph (10) by striking “fiscal year 1992” and inserting “fiscal year 1996” and by striking “fiscal year 1993” and inserting “fiscal year 1997 or any subsequent fiscal year”.

(b) Elimination of Exemptions.—

(1) The Act is amended by striking sections 255 and 256 and by inserting in lieu thereof the following:

"SEC. 255. EXEMPTION.

"No reduction of payments for net interest (all of major functional category 900) shall be made under any order issued under this part.".

(2)(A) Section 251(a)(3)(B) of the Act is amended by striking "Subject to the exemptions, exceptions, limitations, special rules, and definitions set forth in this section and in sections 255, 256, and 257, one-half" and by inserting "One-half".

(B) Section 251(a)(3)(D) of the Act is repealed.

(C) Section 251(a)(3)(E)(i) of the Act is amended by striking "; except" and all that follows thereafter through "reductions".

(D) Section 251(a)(4)(B) of the Act is repealed.

(E) Section 251(a)(5) of the Act is amended by striking "sections 255, 256, and" and by inserting "section".

(F) Section 251(a)(6) of the Act is amended by striking "sections 256 and" and by inserting "section" in the last sentence thereof.

(G) Section 252(a)(1) of the Act is amended by striking "and subject to the exemptions, exceptions, limitations, special rules, and definitions set forth in sections 255, 256, and 257".

(H) Section 252(a)(4)(B) of the Act is repealed.

(I) Section 252(b)(1)(A) of the Act is amended by striking ", and shall include a reduction in payments under the health care programs under title XVIII of the Social Security Act determined in accordance with subsection (a)(4)(B)(ii),".

(J) Section 257 of the Act is amended in paragraph (1) by striking "(except as otherwise provided in sections 255 and 256)".

(K) The table of contents set forth in section 200(b) of the Act is amended by striking the items relating to sections 255 and 256 and by inserting after the item relating to section 254 the following new item:

"Sec. 255. Exemption.".

(c) EFFECTIVE DATE.—The amendments made by subsection (b) shall apply with respect to fiscal years beginning after September 30, 1995.

SEC. 3. EXCLUSION OF RECEIPTS AND DISBURSEMENTS OF SOCIAL SECURITY TRUST FUNDS WHEN CALCULATING MAXIMUM DEFICIT AMOUNTS.

(a) DEFINITION OF DEFICIT.—The second sentence of paragraph (6) of section 3 of the Congressional Budget and

Impoundment Control Act of 1974 (2 U.S.C. 622(6)) is repealed.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to fiscal years beginning after September 30, 1989.

SEC. 4. MAXIMUM DEFICIT AMOUNT.

Section 3(7) of the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C. 622(7)) is amended to read as follows:

"(7) The term 'maximum deficit amount' means—

"(A) with respect to the fiscal year beginning October 1, 1985, $171,900,000,000;

"(B) with respect to the fiscal year beginning October 1, 1986, $144,000,000,000;

"(C) with respect to the fiscal year beginning October 1, 1987, $144,000,000,000;

"(D) with respect to the fiscal year beginning October 1, 1988, $136,000,000,000;

"(E) with respect to the fiscal year beginning October 1, 1989, $163,000,000,000;

"(F) with respect to the fiscal year beginning October 1, 1990, $138,000,000,000;

"(G) with respect to the fiscal year beginning October 1, 1991, $114,000,000,000;

"(H) with respect to the fiscal year beginning October 1, 1992, $99,000,000,000;

"(I) with respect to the fiscal year beginning October 1, 1993, $75,000,000,000;

"(J) with respect to the fiscal year beginning October 1, 1994, $50,000,000,000;

"(K) with respect to the fiscal year beginning October 1, 1995, $25,000,000,000; and

"(L) with respect to the fiscal year beginning October 1, 1996, or any subsequent fiscal year, $0.".

SEC. 5. CHANGE IN DEFINITION OF MAXIMUM DEFICIT AMOUNT FOR A FISCAL YEAR TO REFLECT AMOUNT BY WHICH PRIOR YEAR'S ACTUAL DEFICIT EXCEEDS THAT YEAR'S MAXIMUM DEFICIT AMOUNT.

(a) DEFINITION OF MAXIMUM DEFICIT AMOUNT.—Paragraph (7) of section 3 of the Congressional Budget and Impoundment Control Act of 1974 (as amended by section 4) is amended—

(1) by redesignating subparagraphs (A) through (L) as clauses (i) through (xii), respectively, and by striking out "The" and inserting in lieu thereof "(A) Except as provided by subparagraph (B), the"; and

(2) by inserting at the end thereof the following new subparagraph:

"(B) Except as provided by the next sentence, the amount set forth in subparagraph (A) with respect to any fiscal year shall be reduced by the amount, if any, by which the actual deficit for the immediately preceding fiscal year exceeds the amount set forth in such subparagraph with respect to that fiscal year, except that no such amount shall be reduced below zero. If the actual deficit for a fiscal year exceeds the amount set forth in subparagraph (A) with respect to that fiscal year by less than $10,000,000, then no reduction under the preceding sentence shall occur with respect to the next fiscal year.".

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to fiscal years beginning after September 30, 1989.

SEC. 6. STUDY OF VIABILITY OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND.

Within 6 months after the date of enactment of this Act, the Administrator of the Social Security Administration shall transmit to the President and to each House of the Congress a report of the viability of the Federal Old-Age and Survivors Trust Fund, together with a proposal to ensure that adequate funds will be available as needed in the future for payments to qualified participants.

SEC. 7. GAO STUDY OF USE OF COMMON ECONOMIC ASSUMPTIONS.

Within 6 months after the date of enactment of this Act, the Director of the General Accounting Office shall transmit to the Committees on the Budget of each House of the Congress a report of methods of implementing the use of common economic assumptions by the President and the Congress in carrying out all of their duties and responsibilities with respect to the Federal budget process.

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Chairman **Derrick**. Thank you, Mr. Penny, for your testimony.

You have agreed with most of the people that have come before this committee. We have had quite a number this afternoon, and several other hearings. You can have all the process and all the procedure you want, but if it isn't the will of the Congress to do it, it is not going to get done.

And that leads me up to the question that I have. As you look at Mr. Panetta's bill, do you really think there is leverage in it?

Maybe having just said what I said, that leverage isn't going to work anyway, so you might as well forget about it, but I certainly don't see any leverage. You mentioned the leverage of having competing programs, and I——

Mr. **Penny**. I think the House ought to consider—if we move to pay-as-you-go budgeting, where there is a very real and understandable limit on how much we can spend next year as compared to this year, there ought to be leverage, and it ought to be in the form of a point of order with a super-majority vote.

I think that that is the defense that many Members of Congress need when they are being accosted by one group or another for more spending on various programs.

If you are absolutely disallowed from bringing to the House floor an expenditure level for any program that exceeds last year's expenditure level unless within that same legislation, you have offset that extra spending honestly with an identified revenue or a reduction in a less important program, that point of order then becomes our enforcement tool.

If you have to get a 60 percent vote to break the rules and to increase that spending without an offset, it is going to be very difficult. But if we do it, 60 percent of the membership around here are going to be held accountable for that budget busting vote.

You know, people will say that is an abridgement of the majority's right to govern—and I would not in most cases say that we ought to allow 40 percent of the membership of the House to dictate policy around here—but if a majority of us are gutless, one wonders when it comes to balancing budgets, maybe we need a minority, a floating minority of 40 percent—because there will be a different group on different programs—to hold us to some level of accountability.

I think it is often too easy for 50 percent of us to go out and bust the budget because it makes some group feel good. They want more money for their program. We perhaps need a minority around here that holds us to some higher standard of fiscal responsibility.

Chairman **Derrick**. You know, of course, the problem with that is that can be waived by this committee.

Mr. **Penny**. You might want to think about that in your budget reform proposals, Mr. Chairman.

Chairman **Derrick**. I am thinking about it.

Mr. **Penny**. I doubt that anybody off of the Rules Committee would suggest that your authority to waive that rule should be limited, but perhaps if the committee itself sees the wisdom in making somewhat permanent a point of order on the House floor, that you could get it done. We can't do it for you.

Chairman **Derrick**. You do think Gramm-Rudman-Hollings has served some useful purpose.

Mr. **Penny**. I am convinced deficits today would be larger without it. That is not to say it has helped us cut the deficit because we have played a lot of games. The deficit without social security has actually gone up, but I think it would have gone higher.

Chairman **Derrick**. You see, I didn't vote for Gramm-Rudman-Hollings, and it seems to me, that really the basic thrust of Gramm-Rudman-Hollings has been to allow the Congress to deceive the American people.

The social security accounting is part of Gramm-Rudman-Hollings. We have ended up in that situation, not to mention all of the different smoke and mirrors that have been used, and I just wonder if that is really in balance, that productive.

Let me ask you this: Do you think the budget process continues to serve a useful purpose, or do you think—there are a lot—as you may have heard when Senator Adams was here, we have had an awful lot of people who have testified, respected academics, as well as Members of Congress and said we need to do away with it. Senator Adams, at least if I interpreted his testimony correct, and he was the first real Budget Committee chairman, I think, wants to reduce it basically to an accounting office.

Mr. **Penny**. As I mentioned earlier, I think in its early years the budget process served its purpose.

Chairman **Derrick**. I would disagree with that.

Mr. **Penny**. I think it has largely become irrelevant in the 1980's. I can't think of a budget resolution since I have been here, and that is since 1983, that has been adhered to. We violate it in one way or another either by gumming up the assumptions or coming in with huge supplementals. There are any number of ways to get around it so I think the budget process has become irrelevant.

The vote we had on the budget resolution a week or two ago on the House floor was a meaningless vote. I know that upwards of half the Democratic caucus voted for the budget resolution in spite of the fact that they didn't support it because they viewed it as a way of moving the process along.

Nobody took the budget resolution as a serious document this year and that is how irrelevant it has become.

Chairman **Derrick**. I know that some like to think back to those times in this body when those were tough times, but I was also on that Budget Committee and the reason it worked is because it didn't step on anybody's toes.

It really didn't do anything. I was on there. The first couple of terms I was on there it was not much more than an accounting office and all we did was tally up the figures. We didn't step on anyone's toes and nobody got mad. My argument is that the times when everybody perceives that it works it really didn't do anything.

Mr. **Penny**. My remark that it did work at the outset is based on what I have been told because I wasn't here at the time. The economic climate was a lot different during that era and it was not a time in which the deficits were so large that there was an overriding concern on Capitol Hill about the deficits.

I think any budget process works well when the money is coming in. What we have been faced with for the last 10 years is trying to enforce some discipline in a time of shortage and our current process has not been equal to the task.

Maybe more accurately our current membership in Congress has not been equal to the task.

Chairman **Derrick**. Let me say one thing and I will ask Mrs. Martin if she has questions. It was relative. I think people were just about as concerned in the 1970's with the budget deficit as they are now. When I was elected in 1974 I think the budget deficit was $60 billion or $65 billion and everyone was horrified.

Had we known then that that was just a pittance of what it would amount to a decade later maybe we wouldn't have been as horrified. I don't think we were less horrified then they were now. Mrs. Martin?

Mrs. **Martin**. It has been my pleasure to work with Representative Penny. He has been extraordinarily active in the area of budget reform. So I am going to finish rather than with the major question of the future of the cosmos, with a rather specific question on a bill that we both think has some promise not for giant things, but considerable controls of the process, the right rescission.

Therefore, some of our colleagues that are worried that giving a change and enforcing the right of rescission for the President would give any President too much power and indeed members of the legislative would be giving up stuff they have got, it is very difficult to—I would like to comment on that just on rescission as a small part of budget reform and how does that fit into the balance of power situation?

Mr. **Penny**. I would be glad to and I will do that first by explaining that I didn't include that and other reforms in my remarks because there are lots of marginal adjustments we can make in the process that ought to be adopted and I was trying to focus today on the big picture.

I believe pay-as-you-go is the premise on which budget decisions ought to be made. There are other changes that I think can have a positive result. Enhanced rescission authority is another way of implementing a line item veto. If there has been a major tragedy of the 1980's it has been that we have had Presidents who have talked a lot about congressional overspending and have done so little to veto congressional legislation.

The excuse is that they have to veto an entire bill. My view of the Presidency is that you ought to veto an entire bill and drive down spending in those areas that you object to. I have been baffled that Presidents like Reagan who have been viewed as strong Executives have been so unwilling to take Congress on with an overall veto in order to drive down spending they object to.

I don't think that the President is powerless today. He certainly is stuck with an option of vetoing an entire bill, but I think that he could use that power to great effect, and for some reason our more recent Presidents have chosen not to do that.

Presidents can rescind all they like and if we in Congress ignore it, after a period of time, the rescission goes away and spending continues. I think we ought to be forced to put those rescissions to a vote and there ought to be a timeframe in which that occurs. If we fail to take action, the rescission moves forward.

The value is to give the President authority to single out items and bring them to the light of day. The current supplemental appropriations bill is a prime example of how legislation grows and grows and grows as it moves from committee to the House floor to the Senate, to the conference committee. A large number of these proposed spending initiatives are never brought to a separate vote.

The President, at the very least, ought to be in a position where he can segregate those items from an otherwise acceptable spending bill and send them back to the Congress and force us to put our votes on the line. If a majority are not willing within a time certain to vote to approve those spending items then they are eliminated.

I think that while this may not eliminate $150 billion worth of overspending in our annual budget, it can help us to trim several billion dollars of spending each and every fiscal year. Anything that can be saved is certainly worth the effort.

I appreciate your involvement with that legislation. I am happy to be among those in both caucuses that are supportive of that enhanced rescission authority. Among the other items I have discussed today, if this committee were to recommend that as part of its budget reform package—I think it would be a good addition to the package.

Chairman **Derrick**. Thank you very much, Mr. Penny.

Mrs. **Martin**. And for your patience.

Chairman **Derrick**. The committee is adjourned.

[Whereupon, at 4:40 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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